

PO-CH/NL/0370

PART B

CONF



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PART B

1988 BUDGET DEBATE AND  
WIND UP SPEECH

PO -CH /NL/0370

PART B

DD's 25 years NAGS 1/12/95.

16.3.88

1988 Budget debate  
+ WIND. UP SPEECH.

PART. B

UNCLASSIFIED



FROM: A P HUDSON

DATE: 18 March 1988

pay-

CHANCELLOR

**SIR IAN GILMOUR ON GROWTH**

You asked about Sir Ian Gilmour's claim, in the Budget Debate on 16 March, that:

"Since 1979 ... Britain's average growth rate - even including the boost from oil - has been 1.8 per cent, and that is lower than any other eight year period prior to 1979."

2. I checked with EB. 1.8 per cent is right. In fact, the eight year average to 1987 is higher than the eight years ending in any other year in the 1980s. But it is still lower than any other eight year period since the War.

(EB & EA)  
3. They say that the contribution of oil must have been positive, but cannot put a figure to it until first thing on Monday.

4. The answer is along familiar lines.

- 1979-81 a severe recession worldwide.
- 1979-87, still second in European growth league, cf bottom in 1960s and 1970s.
- Not surprising Britain was badly hit, given over-manning, inefficiency etc.
- What matters is use British firms made of that time to transform performance, reflected in productivity, profitability, share of world trade etc. Higher growth rate not only achievable but sustainable.

APH

A P HUDSON

✓

FROM: G C NORBURY  
S3 WEST WING  
SOMERSET HOUSE  
WC2R 1LB

plp

438-6374

DATE: 18 MARCH 1988

I attach yesterday's Budget debate summary.

G C N.

G C NORBURY

HOUSE OF COMMONS DEBATES  
BUDGET DEBATE  
SUMMARY OF REVENUE POINTS

VOL 129 No 117  
THURSDAY 17 MARCH 1988 (Third Day)

- Col 1252 Mr Kenneth Clarke (ChDL) Enterprise & compassion must go hand in hand.  
Hat trick repeated.  
Labour party of high taxation.
- Col 1253 Tory philosophy opposite. Lower taxation enables better service provision.  
Budget for trade & industry.
- Col 1254 Economic news good. Recovery sustained since 1981.
- Col 1255 Manufacturing. Falling unemployment. Job creation.
- Col 1256 Labour's plans on unemployment flawed. Nationwide improvement in employment.
- Col 1256 Mr Max Madden (La) Many new jobs low-paid.
- Col 1257 Mr K Clarke (ChDL) Earnings increasing rapidly.  
BoP deficit a result of rapid growth. Many imports are raw materials.
- Col 1257 Mr David Ashby (C) Also due to investment in foreign machinery.
- Col 1258 Mr K Clarke (ChDL) Most imports capital investments. Invisible earnings strong.
- Col 1258 Mr Bryan Gould (La) Japan has rapid growth but no BoP deficit.
- Col 1258 Mr K Clarke (ChDL) Japanese economy export led. UK economy different. BoP deficit modest. Invisibles' strength helps.

Col 1259

Productivity up - could improve further.

Labour complacent.

Single European market a major opportunity.

Unit cost performance good. Must be maintained.

Govt. not in favour of low-wage economy. Tax cuts create jobs. Real RoR up to 11% in non-oil sector.

Low CT imcreases investment.

Col 1260

Economy thriving. Business confidence high.

"British miracle" & enterprise culture.

Foreign investors.

Col 1260 Mr N Fairbairn (C)

Attractiveness of Scotland to US investors.

Col 1261 Mr K Clarke (ChDL)

Good economic climate.

Prudent fiscal strategy.

Budget for enterprise. Tax reductions generate wealth. Other countries following.

Col 1262

Stopping brain drain.

CGT changes benefit business, esp. small businesses. Radical & reforming tax package encouraging dynamism. Community as a whole benefits.

1970s Labour policies encouraged diviseness.

Col 1263

Confidence increasing with wealth.

|   |  |
|---|--|
| Col 1263 <u>Mr Robin Cook</u> (La)      | ChDL complacent.<br>Investment low,<br>unemployment high.  |
|   | Not a Budget for business<br>except <u>BES</u> Rachmans.   |
| Col 1264                                | Ch X did not use revenues<br>for public services, eg<br>NHS - should be priority,<br>not <u>tax cuts</u> . |
| Col 1265                                | Nearly £1.9bn NHS<br>shortfall. Labour NHS<br>record better.   |
| Col 1266 <u>Mr K Clarke</u> (ChDL)      | No.  |
| Col 1266 <u>Mr Robin Cook</u> (La)      | Nursing shortage.  |
| Col 1266 <u>Mr Nicholas Bennett</u> (C) | UK figures better than<br>other Western countries.   |
| Col 1267 <u>Mr Robin Cook</u> (La)      | UK figures include student<br>nurses.  |
|   | Health Authority debts.<br>NHS labour-intensive.   |
|   | NHS funding popular - more<br>so than <u>tax cuts</u> .  |
|   | NHS low pay.   |
| Col 1268                                | <u>Tax cuts for rich</u><br>compared with freezing of<br>child benefit.                                    |
|   | Social security reforms<br>hit the poor hardest.   |
| Col 1269 <u>Dr Norman Godman</u> (La)   | Social fund merely a state<br>money-lending system.  |
| Col 1269 <u>Mr Robin Cook</u> (La)      | Rich to gain in <u>tax cuts</u><br>from poor people's loss of<br>benefits.                                 |
| Col 1270                                | <u>Poll tax</u> means<br>better-off will pay less.<br>Poor will lose benefits<br>and depend on charity.    |
|   | Budget an affront to<br>decency, justice &<br>fairness.  |

Col 1270 Mr John Biffen (C)

Accept broad philosophy of tax changes. Long lasting changes.

Col 1271

Community charge should not be a flat-rate system, esp. as NIC ceiling not abolished.

Agnostic about incentive effect of lower tax rates. 20p basic rate goal should not divert attention from other projects.

Possible reintroduction of reduced rate band.

Economic differences between PM & Ch X.

Col 1272

Signs of overheating in economy.

Col 1273

Worries on inflation. Will vote against basic rate reduction.

Col 1273 Mr William Ross (UUP)

Anti-inflation views.

Col 1274

PSBR gone - Govt. should pay off debt. Wise to cut taxes now. NIC ceiling should be abolished.

IT & NICs should be tied.

Col 1275

Labour responsibility for inflation.

Hardship of unemployed.

Taxation in N Ireland and Eire. NI has competitive advantage.

CGT should be removed eventually.

Col 1276

Welcomed general policy of reducing taxes.

Col 1276 Mr John Butterfill (C)

Differing conditions of late 1980s and previous

Col 1277

years of expansion, eg  
negative PSBR.

Fears of overheating  
unfounded.

Welcomed - tax reforms  
- BES changes  
- rise in VAT  
threshold  
- CGT reliefs  
- CT reductions  
for small co's.

Col 1277

Proposed that annuity  
schemes secured on OAPs'  
homes should gain extra  
tax relief.

Col 1279

Non-tax transparency of  
single property ownership  
trusts.

Col 1279 Mr Andrew Smith (La)

"Unbalanced" Budget: a  
Budget for the rich at the  
expense of the poor.

Col 1280

NHS underfunding. Nurses'  
pay. Richly-paid bosses.

Social security changes -  
many will lose benefit.

Col 1281

Deliberate creation of  
underclass. Budget for  
rich.

Independent taxation  
benefits rich.

Long term economic effects  
serious.

Col 1282

Boom without foundations.  
No investment in science &  
technology nor R & D.

Budget divisive & morally  
bankrupt.

Col 1282 Sir Anthony Grant (C)

Agrees only on nurses' pay  
& R & D.

Charity part of decent  
society.

Col 1284

Dependence on  
international trade.

Govt. should prevent  
wildly fluctuating  
exchange rates & join EMS.

Export opportunities.

Right to reduce taxation.  
Should increase stamp  
duty threshold.

Tax reduction compatible  
with extra NHS funding.

Col 1285

Budget good for Britain.

Col 1285 Mr Eric Heffer (La)

Budget not radical but  
reactionary. Super-rich  
gain.

Wealth created by ordinary  
people.

Col 1286

Govt. only concerned for  
rich.

Unemployment still high.  
NHS funding.

Col 1287

Mini-boom. Improvement an  
illusion. A deceiver's  
Budget - tax burden the  
same for country, but not  
for rich.

Changes in covenants hit  
Govt. supporters.

Govt. has gone over the  
top. Next Govt. will be  
Labour.

Col 1288 Mr James Hill (C)

Lucky to have present Ch  
X. Tories will win next  
election.

Simplification of tax  
system.

Benefits to NHS.

Co 1289

Welcomed - Raising of IT  
& inheritance  
tax

- thresholds.
- CGT reliefs good for business.
- BES encouragement of housing.

Petrol duty increase  
regrettable.

Budget for business confidence.

Col 1290 Mr John Battle (La)

Budget for rich. Many will not gain from it.

Col 1291

No radical restructuring. Poverty trap will still affect many. Money going from poor to rich.

Col 1292

Utilitarian philosophy of Govt.

Housing proposals will discourage investment in home improvement. Could have been better targeted.

Col 1293

Budget does not encourage investment. BES a landlord's subsidy.

Govt. has withdrawn from housing investment.

Budget almost universally condemned.

Col 1293 Mr Ray Whitney (C)

Public & private investment rising thanks to strength of economy.

Col 1294

Some concern about inflationary pressures. No comparison with 1970s.

Labour demands for increased expenditure on NHS constantly increasing.

Col 1295

Foreign socialist parties revising ideas - but not Labour.

|                                      |   |
|--------------------------------------|---|
|                                      | NHS requires new thinking.  |
| Col 1296                             | Resource implications of<br>NHS not tackled 40 years<br>ago. NHS now in a mess.<br>Requires change not reform.  |
| Col 1297 <u>Mr G Bermingham</u> (La) | National priorities are<br>wrong. Little in Budget<br>for ordinary people.  |
| Col 1298                             | Welcomed cut in interest<br>rates, but still too high.<br><br><u>Duty increases raise</u><br><u>cost of living.</u><br><br><u>Car allowance change</u><br><u>will hurt industry.</u>            |
| Col 1299                             | Disincentive effect of<br>Budget on industrial<br>investment.<br><br>Budget for a minority.<br>Govt. will pay price.  |
| Col 1299 <u>Mr Jeremy Hanley</u> (C) | Manifesto commitment on<br><u>IT upheld.</u>  |
| Col 1300                             | Stop to brain drain.<br><br>Good economic management<br>leads to healthy economy.<br><br>Public spending up in most<br>sectors. Opposition should<br>be debating income, not<br>expenditure.    |
| Col 1301                             | Strength of economy will<br>allow more spending.<br><br><u>Top rate taxpayers</u><br><u>contribute more now than</u><br><u>in 1979.</u><br><br>Weakness of US economy.                          |
| Col 1302                             | Reforming Budget. Possible<br>problem - overheating.<br><br><u>Possible extra reforms -</u><br><u>increase mortgage relief</u><br><u>ceiling &amp; more incentives</u><br><u>for R &amp; D.</u> |

|                                       |  |
|---------------------------------------|--|
| Col 1303                              | Budget meets needs of nation.  |
| Col 1303 <u>Mr Andrew Welsh</u> (SNP) | Budget a disappointment to Scotland. Gives to rich. No public investment. Increases inequality.                            |
| Col 1304                              | Weakness of Scottish economy. SNP recommend a massive public spending programme.   |
| Col 1305 <u>Mr David Shaw</u> (C)     | Welcomed Budget. NHS has gained. Manufacturing exports up. Unemployment down. Sustained growth. Benefits of privatisation. |
|                                       | <u>Fairness of proposals on taxation of women.</u>   |
| Col 1306                              | <u>More tax cuts needed.</u>   |
|                                       | Opposition hates success. More money will be invested in business thanks to this Budget.                                   |
|                                       | Capital owning democracy.  |
|                                       | <u>Welcomed</u> - abolition of capital duty.   |
|                                       | <u>BES a success.</u> Needed limit.  |
| Col 1307                              | FSA 1986 adds costs to business.   |
|                                       | Budget for jobs.   |
| Col 1307 <u>Mr Robert Wareing</u> (C) | Economy not buoyant. Consumer boom. BoP deficit.   |
| Col 1308                              | <u>Oil revenues a boon.</u>  |
|                                       | <u>International taxation comparisons.</u>   |
|                                       | Fixed investment & NHS spending low by international standards.  |
| Col 1309                              | Investment in infrastructure.  |

Col 1309 Mr Ian Taylor (C)

Rich man's Budget.

Balanced Budget achieved.  
Worst tax excesses  
removed.

Level of taxation stable  
as GDP%.

Apparent bias against  
incorporation.

Col 1310

Budget afor a thriving  
Britain.

Col 1310 Mr Chris Smith (La)

Budget uncaring. Not  
prudent. BoP deficit.  
Consumption boom.

Need for stable &  
competitive exchange rate.  
Instability reducing value  
of foreign assets.

Real interest rate too  
high.

Col 1311

Credit boom. Overheating.  
Low level of savings. No  
money for investment.

Welcomed - different  
rates of duty  
for leaded &  
unleaded  
petrol.  
- forestry  
relief  
reduction.

Scottish environment.

Col 1314

Independent taxation of  
women not as good as it  
appears. Rich benefit  
most.

Changes in maintenance  
will lead to lower  
maintenance awards.

Should have improved child  
benefit & given relief  
for workplace nurseries.

Drop Poll tax.

|  |  |
|--|--|
| Col 1313                               | <u>Welcomed</u> - tightening of rules on perks.  |
|  | <u>CGT relief</u> will cause huge drop in tax liabilities.   |
|  | <u>BES</u> change a huge new loophole. Could become UK's No 1 tax sheler.  |
| Col 1314                               | Budget divisive - nothing for NHS. Resources go to rich.   |
| Col 1314 <u>Mr Peter Lilley</u> (EST)  | Labour unconvincing on economic policy.  |
| Col 1315                               | <u>No policy on married couples' taxation. Removal of NICs limit would increase marginal rates. No reply to proposal to reduce basic rate.</u> |
| Col 1315 <u>Mr Robin Cook</u> (La)     | <u>Tories abolished reduced rate band.</u>   |
| Col 1316 <u>Mr Peter Lilley</u> (EST)  | Budget improves supply side of economy.  |
|  | No serious danger of overheating. <u>No cut in basic rate would add to PSBR - inflationary consequences.</u>                                   |
| Col 1316 <u>Mr Nigel Spearing</u> (La) | NHS spending inflationary?   |
| Col 1317 <u>Mr Peter Lilley</u> (EST)  | As much as any other.  |
|  | <u>Lower tax rates boost economy.</u>  |
|  | <u>John Butterfill's suggestion (see above) of benefit mostly to heirs.</u>  |
|  | NHS. Exports to Japan up 30% in 1 year.  |
| Col 1318                               | <u>Oil taxation changes a boost to oil industry &amp; Scotland.</u>  |

Col 1319

BES relaxation will be  
widely welcomed.

Supply side of economy  
transformed. Rapid growth.  
Excellent competitiveness.

Labour theories incorrect.

Tax reform & reduction  
beneficial.

CT & CGT yields up. IT  
reductions will have same  
effect.

Provision of information  
to HM C&E.

Budget extends policies of  
success.

Debate adjourned.

FINAL DRAFT

MASTER PLP

## BUDGET DEBATE WIND UP, 21 MARCH 1988

NOW IN FINAL STAGES OF DEBATE WHICH BEGAN WITH A BUDGET STATEMENT THAT, UNPRECEDENTEDLY, WAS INTERRUPTED NOT ONCE BUT TWICE.

ONCE BY A DIVISION FOLLOWING THE NAMING OF A MEMBER, AND A SECOND TIME BY A SUSPENSION OF THE HOUSE IN THE MOST LAMENTABLE CIRCUMSTANCES.

DURING ONE OF THOSE INTERRUPTIONS, I RECALLED THE MOTTO UTTERED ON ONE MEMORABLE AND TURBULENT OCCASION IN THE HOUSE OF COMMONS BY OUR FORMER COLLEAGUE, ADMIRAL MORGAN-GILES.

[PRO BONO PUBLICO: NO BLOODY PANICO].

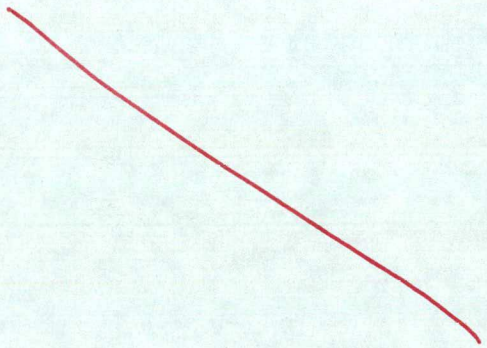
Both my RHF the Member for Worthing and my RHF for Worthing referred to the appalling and unprecedented scenes in the chamber during the Budget Statement.

THE HOUSE OF COMMONS WILL DELIVER ITS VERDICT ON THE BUDGET IN THE DIVISION LOBBIES TONIGHT.

BUT THE BUDGET HAS ALREADY ATTRACTED UNPRECEDENTED COMMENT FROM AROUND THE WORLD, WHERE IT HAS BEEN SEEN AS REINFORCING THE HIGH STANDING WHICH BRITAIN, UNDER THE LEADERSHIP OF MY RT HON FRIEND THE PRIME MINISTER, NOW HAS IN THE WESTERN WORLD.

A FAR CRY FROM THE TONES OF SORROW AND PITY WHICH GREETED THE LABOUR GOVERNMENT'S DESPERATE ATTEMPTS TO SHORE UP A DECLINING ECONOMY.

IN JAPAN, FOR EXAMPLE, ONE OF THE MAIN PAPERS GIVES PROMINENCE TO "THE THATCHER MIRACLE", ANOTHER TO "A BUDGET TOO BOLD FOR THE JAPANESE GOVERNMENT", WHILE THE JAPANESE EQUIVALENT OF THE FINANCIAL TIMES REFERS TO THE CHANGING IMAGE OF BRITAIN AS NOW BEING A COUNTRY OF INDIVIDUAL ENTERPRISE.

A red diagonal line starts from the end of the first paragraph and extends downwards and to the right across the page.

IN THE US, THE WALL STREET JOURNAL IN AN EDITORIAL  
OBSERVED THAT "BRITAIN HAS RETURNED TO THE LEAD IN THE  
GLOBAL SWING TOWARDS FREE ECONOMIES AND PRO-GROWTH  
POLICIES BASED ON INDIVIDUAL INITIATIVE".

IN FRANCE, LIBERATION CALLED IT "THE MOST FUNDAMENTAL AND MOST DARING BUDGET SINCE MARGARET THATCHER CAME TO POWER", SET AGAINST THE BACKGROUND OF "THE EXCEPTIONAL DYNAMISM OF THE BRITISH ECONOMY".

AND IN GERMANY, HANDELSBLATT DECLARED THAT "THE ONCE SICK MAN OF EUROPE HAS BECOME THE MOST DYNAMIC ECONOMIC NATION IN EUROPE".

*So much for the view expressed by the  
HM for Dagenham about the economy  
and the Budget alike. //*

✓

BUT IMPORTANT THOUGH THIS BUDGET IS, IT IS EVEN MORE  
IMPORTANT THAT IT IS NOT SEEN IN ISOLATION.

FOR THIS BUDGET REPRESENTS A CONTINUATION OF THE POLICIES  
WE HAVE PURSUED CONSISTENTLY FOR NEARLY NINE YEARS - AND  
WILL CONTINUE TO PURSUE.

A CONTINUATION OF THE STEPS WE HAVE TAKEN IN  
NINE PREVIOUS BUDGETS; AND OF THE MAJOR REFORMS WE HAVE  
INTRODUCED IN OTHER FIELDS, ALL DESIGNED TO ENCOURAGE AND  
REWARD ENTERPRISE AND SO TO LIBERATE THE ENERGIES OF THE  
BRITISH PEOPLE.

THE TAX CHANGES IN THIS BUDGET CONSOLIDATE BRITAIN'S MOVE FROM A HIGH TAX COUNTRY TO A LOW TAX COUNTRY, AT ALL LEVELS.

SINCE 1979 THE TOP RATE OF INCOME TAX HAS BEEN CUT FROM 83 PER CENT TO 40 PER CENT.

THE BASIC RATE HAS BEEN CUT FROM 33 PER CENT TO 25 PER CENT. ~~THE~~ THE CORPORATION TAX RATE HAS BEEN CUT FROM 52 PER CENT TO 35 PER CENT. ~~THE~~ THE SMALL COMPANIES' RATE HAS BEEN CUT FROM 42 PER CENT TO 25 PER CENT. ~~AND~~ AND THE 15 PER CENT ADDITIONAL TAX ON SAVINGS <sup>income</sup> HAS BEEN ABOLISHED ALTOGETHER.

BUT THESE DRAMATIC CHANGES NEED TO BE SEEN NOT AS A  
REWARD, BUT AS A CHALLENGE.

A CHALLENGE TO BRITISH BUSINESSMEN.

THE REDUCTIONS IN TAX RATES, COUPLED WITH THE REFORM OF  
TRADE UNION LAW, PROVIDE AN UNPARALLELED OPPORTUNITY FOR  
BRITISH FIRMS TO COMPETE WITH THE BEST IN THE WORLD, AND  
TO SUCCEED.

THE NATION NOW LOOKS TO THEM NOT MERELY TO DO BETTER THAN  
THEY HAVE EVER DONE BEFORE, BUT TO OUTPACE THOSE  
OVERSEAS - FOR THERE IS STILL A GREAT DEAL TO BE DONE TO  
MAKE GOOD THE GROUND LOST IN THE <sup>sixties and the</sup> 'SEVENTIES.

AND THE BRITISH PEOPLE LOOK TO THEM, TOO, TO PLAY THEIR  
FULL PART IN THE SOCIAL FIELD - IN THE INNER CITIES AND  
IN OTHER ~~FIELDS~~ <sup>areas</sup> WHERE THEY CAN OFTEN BE FAR MORE  
EFFECTIVE THAN BUREAUCRATIC AGENCIES.

I AM CONFIDENT THAT BRITISH BUSINESS WILL LIVE UP TO THIS CHALLENGE.

JUST AS IT RESPONDED SO WELL TO THE CHALLENGE OF ADVERSITY DURING A WORLD RECESSION, SO IT WILL RESPOND FULLY TO THE CHALLENGE OF OPPORTUNITY.

FOR IT IS ALREADY CLEAR THAT THE POLICIES WE HAVE BEEN PURSUING HAVE BROUGHT ABOUT A PROFOUND CULTURAL CHANGE IN BRITAIN.

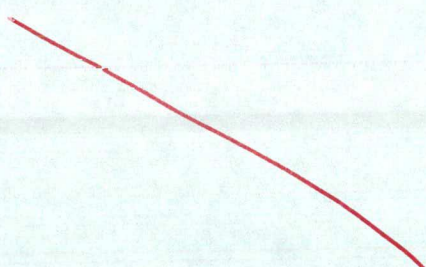
THAT, INDEED, IS WHAT IT IS ALL ABOUT.

FOR THAT CULTURAL CHANGE IS THE ONLY ROUTE TO THE ECONOMIC SUCCESS WE ALL WISH TO SEE, AND WHICH IS NO LONGER PROMISE BUT REALITY. //

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NO LONGER DO PEOPLE ACCEPT THAT ECONOMIC POLICY SHOULD BE ABOUT REGULATING EVERYONE'S LIVES, AND IMPOSING PENAL TAX RATES IN THE ILLUSION THAT THAT WILL BENEFIT THOSE ON LOWER INCOMES.



INSTEAD, IT IS NOW WIDELY RECOGNISED THAT YOU CAN'T MAKE THE POOR RICH BY MAKING THE RICH POOR; THAT THERE ARE ENORMOUS BENEFITS IN GETTING THE STATE OFF PEOPLE'S BACKS, IN TRANSFERRING DECISION-MAKING FROM THE STATE TO THE PEOPLE.

AND IT IS NOW ABUNDANTLY CLEAR THAT GIVING GREATER FREEDOM AND GREATER INCENTIVES HAS REMOVED THE SHACKLES WHICH HELD BACK BRITAIN FOR SO MANY ~~WASTED~~ YEARS AND HAS LIBERATED A GREAT SURGE IN ENTERPRISE.

*Print on separate  
unnumbered page*

*We have*

~~IT HAS~~ CHANGED THE ATTITUDES AND BEHAVIOUR OF THE BRITISH PEOPLE.

FROM THE BITTERNESS AND RECRIMINATION IN INDUSTRIAL RELATIONS IN THE 1970'S, THERE IS NOW A NEW SPIRIT OF COOPERATION AND OF DETERMINATION TO WORK TOGETHER.

FROM AN INNATE TENDENCY TO EXPECT FAILURE IN WORLD MARKETS, THERE IS NOW CONFIDENCE THAT OUR FIRMS WILL BE ABLE TO COMPETE SUCCESSFULLY BOTH AT HOME AND ABROAD.

FROM THE BUREAUCRACY AND SOCIALIST INTERVENTION WHICH USED TO STIFLE THE BEST EFFORTS OF INDUSTRY AND COMMERCE, THERE IS NOW A BUOYANT AND EXPANDING PRIVATE SECTOR WHICH IS STRONGER THAN EVER BEFORE.

THIS COUNTRY IS EXPERIENCING AN ECONOMIC MIRACLE COMPARABLE IN SIGNIFICANCE TO THAT PREVIOUSLY ENJOYED BY WEST GERMANY AND CONTINUOUSLY BY JAPAN WHERE THE SOCIALIST PARTY HAS BEEN IN UNINTERRUPTED OPPOSITION FOR THE PAST 33 YEARS - ARGUABLY THE MOST IMPORTANT SINGLE INGREDIENT OF ECONOMIC SUCCESS.

*- 14 -*

*9*

THE PLAIN FACT IS THAT THE ECONOMIC ARGUMENT HAS BEEN WON  
- ONCE AND FOR ALL.

THE OPPOSITION HAVE ANXIOUSLY SOUGHT TO TALK ABOUT  
EVERYTHING EXCEPT ECONOMIC POLICY.

- 15 -

And the RHG the Leader of the Opposition called it a "boomlet" in the Sun newspaper

in an article in the Sun newspaper,

IN HIS SPEECH IN THIS DEBATE LAST WEDNESDAY, THE RT HON MEMBER FOR MONKLANDS EAST WAS REDUCED TO REFERRING DISPARAGINGLY TO A "SHORT-TERM BOOM".

SEVEN YEARS OF STEADY GROWTH AT AN AVERAGE OF 3 PER CENT A YEAR, AND <sup>they</sup> HE CALLS IT A <sup>"boomlet"</sup> ~~SHORT-TERM BOOM, WITH AN EIGHTH YEAR AT 3 PER CENT NOW FORECAST.~~

THE LAST LABOUR GOVERNMENT NEVER ONCE ACHIEVED GROWTH OF 3 PER CENT. //

AND, WHILE WE ARE DETERMINED TO GET INFLATION DOWN FURTHER, WHAT WE ARE NOW TALKING ABOUT IS GETTING IT DOWN FROM SOMETHING BETWEEN 3 AND 4 PER CENT.

CONTRAST THAT WITH A LABOUR GOVERNMENT UNDER WHICH THE LOWEST RATE OF INFLATION EVER ACHIEVED WAS OVER 8 PER CENT AND THE AVERAGE OVER 15 PER CENT.

AND WHEN THE PARTY OPPOSITE CLAIM THIS BUDGET IS UNFAIR, I SAY THIS TO THEM.

YOU CAN ARGUE TILL THE COWS COME HOME WHETHER IT IS FAIR TO TAKE 60 PER CENT OR 50 PER CENT OR 40 PER CENT OF A MAN'S SALARY AWAY FROM HIM IN TAXATION.

BUT WHAT IS BEYOND DISPUTE IS THE CROWNING UNFAIRNESS OF  
15 PER CENT INFLATION. //

p 11 ends here.

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THE BENEFITS OF SOUND AND CONSISTENT POLICIES ARE NOW  
BEING FELT THROUGHOUT THE ECONOMY - IN EVERY REGION AND  
COUNTRY, AND IN EVERY INDUSTRY.

~~EMPLOYMENT HAS BEEN GROWING RAPIDLY FOR SEVERAL YEARS,  
BUT IT HAS TAKEN TIME FOR THAT TO BE REFLECTED IN FALLS  
IN UNEMPLOYMENT.~~

~~THAT HAS CHANGED DECISIVELY NOW.~~

UNEMPLOYMENT HAS FALLEN BY HALF A MILLION OVER THE LAST  
YEAR, FASTER THAN IN ANY OTHER MAJOR COUNTRY.

AND OUR UNEMPLOYMENT RATE IS NOW LOWER THAN THAT IN ANY  
OTHER MAJOR EUROPEAN COUNTRY, APART FROM GERMANY. //

THIS SUCCESS HAS BEEN ACHIEVED BY REJECTING THE IDEA THAT THE STATE IS THE ENGINE OF GROWTH, AND THAT THE ONLY WAY TO STIMULATE THE ECONOMY IS BY RUNNING EVER LARGER FISCAL DEFICITS.

WE SAW WHAT THAT LED TO IN THE 70s: INFLATION SPIRALLING OUT OF CONTROL, THE CURRENCY CRASHING, UNTIL THERE WAS NO CHOICE BUT TO SLAM THE ENGINES INTO REVERSE, WITH DEEP CUTS IN PUBLIC EXPENDITURE AND SAVAGE TAX INCREASES.

WHAT WE HAVE DONE IS TO ADOPT A POLICY OF STEADILY  
X REDUCING GOVERNMENT BORROWING.

AND WE HAVE NOW REACHED THE LOGICAL CONCLUSION, A  
BALANCED BUDGET. //

p 13 It ends here

X OUR LEGACY TO FUTURE GENERATIONS WILL NOT BE AN EVER  
INCREASING BURDEN OF DEBT INTEREST, BUT ONE WHICH <sup>Falls</sup> ~~REDUCES~~  
AS A PROPORTION OF NATIONAL INCOME.

AND THIS IS ALREADY ALLOWING US TO SPEND MORE ON PRIORITY  
SERVICES - INCLUDING HEALTH - WHILE KEEPING TO OUR  
OVERALL OBJECTIVES OF REDUCING PUBLIC EXPENDITURE AS A  
SHARE OF TOTAL NATIONAL INCOME.

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page.

## *that* Balanced Budget: History

A BALANCED BUDGET HAS, AS I SAID IN MY BUDGET STATEMENT,  
A GOOD HISTORICAL PEDIGREE.

YOU DO NOT HAVE TO LOOK BACK TO THE HISTORY OF THE LAST  
CENTURY TO SEE THAT.

THE 1944 EMPLOYMENT POLICY WHITE PAPER, FOR EXAMPLE, SAID

"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."

THIS POINT WAS SOON FORGOTTEN BY THE SO-CALLED KEYNESIANS WHO SEIZED ON THE IDEA THAT GOVERNMENT DEFICITS WERE THE ROUTE TO FASTER GROWTH.

NOTHING COULD HAVE BEEN MORE MISTAKEN, OR MORE DISASTROUS.

Ø Sep p. ends here.

### Bot Oil Revenues

HON MEMBERS OPPOSITE TRY TO PRETEND THAT WE HAVE ONLY BEEN ABLE TO BALANCE THE BUDGET BECAUSE OF WINDFALL REVENUES FROM OIL.

THEY SHOULD LOOK AT THE FIGURES.

IN 1988-89, OIL REVENUES AT SOME £3 BILLION, WILL BE EXACTLY THE SAME SIZE AS THE BUDGET SURPLUS.

SO WE WOULD HAVE A BALANCED BUDGET EVEN WITH NO OIL REVENUES AT ALL.

INDEED, WE NOW RECEIVE MORE TAX - EVEN AFTER THE BUDGET MEASURES - FROM CAPITAL GAINS THAN WE DO FROM OIL.

*Sep unnumbered page.*

WHAT HAS BROUGHT US TO THIS POSITION, IS THE VIRTUOUS  
CIRCLE OF LOWER BORROWING AND LOWER TAX RATES.

LOWER BORROWING GETS THE STATE OUT OF THE WAY.

LOWER TAX RATES GIVE EVERY INCENTIVE FOR THE PRIVATE  
SECTOR TO EXPAND.

X AND THAT IN TURN GENERATES THE HIGHER REVENUES WHICH HAVE  
AGAIN ALLOWED US TO ACHIEVE THE HAT-TRICK OF LOWER TAX  
RATES, HIGHER PUBLIC SPENDING AND LOWER BORROWING - INDEED  
THE ELIMINATION OF BORROWING ALTOGETHER.

IT IS A NONSENSE FOR THE PARTY OPPOSITE TO MAKE FANCIFUL  
SUGGESTIONS ABOUT WHAT THEY WOULD HAVE DONE WITH THE  
REVENUES IF THEY HAD BEEN IN GOVERNMENT.

FOR THE PLAIN FACT IS THAT HAD THEY BEEN IN GOVERNMENT  
THE REVENUES WOULD NOT HAVE BEEN THERE IN THE FIRST  
PLACE.

THEY WEREN'T IN THE 1960s.

THEY WEREN'T IN THE 1970s.

AND THEY WOULDN'T BE NOW, EITHER. //

xxx

*ACHIEVING this*  
~~AND~~ *A* CRUCIAL PART OF ~~THE~~ VIRTUOUS CIRCLE IS THE PURSUIT  
OF TAX REFORMS THAT REWARD AND ENCOURAGE ENTERPRISE,  
SOMETHING COMPLETELY ALIEN TO LABOUR'S PHILOSOPHY.

- ~~21~~ -

17

WE DON'T HAVE TO THEORISE ABOUT THE BENEFITS OF TAX REFORM.

THEY ARE VIVIDLY ILLUSTRATED BY THE REFORMS TO CORPORATION TAX WHICH I INTRODUCED IN 1984.

p 17 ends here.

## Stock Relief

A FURTHER BENEFIT OF THE CORPORATION TAX REFORMS LAY IN THE ABOLITION OF STOCK RELIEF, WHICH HAS ENCOURAGED BRITISH INDUSTRY TO MANAGE ITS STOCKS MUCH MORE EFFICIENTLY, AND THIS IN TURN HAS MEANT THE VIRTUAL ENDING OF THE "STOCK CYCLE", THUS CONTRIBUTING TO THE STEADINESS OF ECONOMIC GROWTH.

*Sep unnumbered page*

THE PRINCIPLES OF LOWERING TAX RATES AND OF REDUCING OR  
ABOLISHING UNWARRANTED TAX BREAKS HAVE BEEN APPLIED  
CONSISTENTLY SINCE 1979.

THEY HAVE SERVED THE ECONOMY WELL.

THE TAX CHANGES IN THIS BUDGET BUILD ON MANY OF THE  
REFORMS I AND MY PREDECESSOR INITIATED IN EARLIER  
BUDGETS.

1 H7

ON CAPITAL TAXES, FOR EXAMPLE, THE SYSTEM BEQUEATHED BY LABOUR HAD NO LESS THAN 17 DIFFERENT RATES OF CAPITAL TRANSFER TAX ON LIFETIME GIFTS AND 14 ON TRANSFER AT DEATH.

WE HAD ALREADY TAKEN GREAT STEPS TO SIMPLIFY THESE, AND I HAD IN PARTICULAR ABOLISHED THE TAX ON LIFETIME TRANSFERS ALTOGETHER.

AND IN THIS YEAR'S BUDGET, I HAVE SET A SINGLE FLAT RATE FOR INHERITANCE TAX, AT 40 PER CENT.

*Sep. unnumbered page.*

ON CAPITAL GAINS TAX, THE SYSTEM WE INHERITED BIT HARSHLY  
ON INFLATIONARY GAINS MADE IN THE 1970s.

MY PREDECESSOR WAS ABLE TO MAKE A START ON RECTIFYING  
THIS IN HIS BUDGET IN 1982.

I EXTENDED THE INDEXATION PROVISIONS IN 1985.

AND IN THIS YEAR'S BUDGET, I WAS ABLE TO ANNOUNCE THE  
LOGICAL CONCLUSION, THAT GAINS MADE BEFORE 1982 SHOULD BE  
EXEMPT FROM TAX ALTOGETHER.

THIS WILL BENEFIT THE ECONOMY BY UNLOCKING ASSETS BOUGHT  
BEFORE 1982, WHICH PEOPLE HAVE BEEN SITTING ON SIMPLY TO  
AVOID A PENAL TAX CHARGE ON PURELY PAPER GAINS.

*the alignment of the rates of tax*  
~~BUT AT THE SAME TIME, IT WAS RIGHT TO REMOVE ONE~~  
~~on income and capital gains, which was made possible~~  
~~DISTORTION FROM THE SYSTEM: UNDER THE EXISTING REGIME,~~  
~~by the simplification of the income tax rates, removes~~  
~~GAINS ARE TAXED AT A FLAT RATE OF 30 PER CENT, REGARDLESS~~  
~~both the distortion of investment decisions and the~~  
~~OF WHETHER THE TAXPAYER PAYS BASIC OR HIGHER RATE INCOME~~  
~~TAX.~~

~~THIS MEANT THAT A BASIC RATE TAXPAYER FACED A HIGHER RATE~~  
~~ON CAPITAL GAINS THAN ON INCOME, WHILE A HIGHER RATE~~  
~~TAXPAYER FACED A LOWER ONE.~~

~~WITH TOP RATES OF 60 PER CENT IT WOULD HAVE BEEN~~  
~~MANIFESTLY IMPOSSIBLE TO TAX GAINS AT INCOME TAX RATES.~~  
~~BUT WITH THE NEW, LOWER, INCOME TAX RATES, THIS BECAME~~  
~~THE LOGICAL STEP.~~

~~THIS WILL BENEFIT THE ECONOMY BY TACKLING THE DISTORTION~~  
~~CAUSED BY TAXING INCOME AND GAINS AT DIFFERENT RATES,~~  
~~WHEN VERY OFTEN THERE IS SIGNIFICANT SCOPE FOR HIGHER~~  
~~RATE TAX PAYERS IN PARTICULAR TO CONVERT INCOME INTO~~  
~~GAINS TO MINIMISE THEIR TAX LIABILITY.~~ //

~~IT WILL ENSURE THAT INVESTMENT DECISIONS ARE NOT~~  
~~DISTORTED BY THE TAX ADVANTAGE OF INVESTING FOR GAINS~~  
~~RATHER THAN INCOME.~~

UNDERLYING MANY OF THE CHANGES WE HAVE MADE SINCE 1979 HAS BEEN THE SPECIAL NEED TO ENCOURAGE SMALL BUSINESSES, WHERE MUCH OF THE DYNAMISM OF THE ECONOMY SPRINGS FROM. THE MOST IMPORTANT STEP, OF COURSE, HAS BEEN TO CUT THE SMALL COMPANIES' CORPORATION TAX RATE FROM 42 PER CENT IN 1978-79 TO 25 PER CENT NOW - A CUT OF TWO-FIFTHS.

~~BUT OVER THE YEARS WE HAVE INTRODUCED MANY OTHER MEASURES~~ DESIGNED TO ENCOURAGE SMALL BUSINESSES, INCLUDING, FOR EXAMPLE, RAISING THE VAT THRESHOLD BY THE MAXIMUM PERMITTED UNDER COMMUNITY LAW, AND INTRODUCING, IN MY BUDGET LAST YEAR, THE IMPORTANT NEW PROVISIONS FOR CASH ACCOUNTING FOR VAT.

[AND THE CHANGES WE HAVE MADE TO CAPITAL GAINS TAX RETIREMENT RELIEF - WHICH I WAS ABLE TO EXTEND SIGNIFICANTLY IN THIS YEAR'S BUDGET - AND TO INHERITANCE TAX, MEAN THAT IT IS POSSIBLE FOR AN ENTREPRENEUR TO BUILD UP A BUSINESS AND PASS IT ON TO HIS FAMILY WITHOUT ~~SADDLING THEM WITH A CRIPPLING TAX BURDEN.~~]

IN THIS BUDGET, IT WAS RIGHT TO CONCENTRATE ON PERSONAL TAXATION - AND ON INCOME TAX IN PARTICULAR.

WE HAD MADE SOME SUBSTANTIAL PROGRESS IN PREVIOUS BUDGETS, BUT IT WAS CLEAR THAT THIS WAS AN AREA RIPE FOR REFORM.

*I believe that the whole House, and indeed the whole country, has welcomed the,*

~~ONE~~ HISTORIC REFORM I ANNOUNCED ~~WAS~~ IN THE TAX TREATMENT OF MARRIED WOMEN.

THE EXISTING SYSTEM, WITH THE WIFE'S INCOME TREATED FOR TAX PURPOSES AS BELONGING TO HER HUSBAND, HAD LASTED 180 YEARS.

IT HAD BECOME WHOLLY INDEFENSIBLE.

~~THERE HAVE BEEN NUMEROUS PROPOSALS FOR REFORM, NOT JUST UNDER THIS GOVERNMENT BUT BEFORE THAT.~~

BUT THE PROBLEMS HAD ALWAYS SEEMED DAUNTING, AND LITTLE ~~PROGRESS~~ HAD BEEN MADE.

I DECIDED THAT THE TIME HAD COME TO ACT.

MY PROPOSALS WILL FOR THE FIRST TIME ENSURE COMPLETE  
PRIVACY AND INDEPENDENCE FOR MARRIED WOMEN IN THEIR TAX  
AFFAIRS. ~~AND THIS HAS BEEN WIDELY WELCOMED.~~

WHAT THE PROPOSALS MEAN IS THAT MARRIED WOMEN WILL BE  
TAXED COMPLETELY INDEPENDENTLY FROM THEIR HUSBANDS, WITH  
THEIR OWN PERSONAL ALLOWANCES, AND THEIR OWN ANNUAL  
~~EXEMPTIONS FOR CAPITAL GAINS.~~

Take in p 40 here

23

- 31 -

BUT IT IS CLEARLY RIGHT THAT THE TAX SYSTEM SHOULD  
RECOGNISE MARRIAGE, AND SO I ANNOUNCED A NEW MARRIED  
COUPLE'S ALLOWANCE, WHICH WILL ENSURE THAT MARRIED MEN DO  
NOT SEE THEIR TAX ALLOWANCES FALL.

[LABOUR AND MCA.]

AT THE SAME TIME, IT WAS CLEARLY RIGHT TO ELIMINATE THE SO CALLED TAX PENALTIES ON MARRIAGE - THE QUIRKS IN THE EXISTING SYSTEM WHICH MEAN THAT SOME UNMARRIED COUPLES PAY LESS TAX THAN A MARRIED COUPLE IN THE SAME CIRCUMSTANCES. // p 23 ends here

~~THE MOST IMPORTANT OF THESE - THE TAXATION OF A WIFE'S INCOME AT HER HUSBAND'S MARGINAL RATE - IS ELIMINATED BY THE INTRODUCTION OF INDEPENDENT TAXATION.~~

Wife's Investment Income

I HAVE BEEN SURPRISED TO SEE THAT SOME OF THOSE WHO WELCOMED THE MOVE TO INDEPENDENCE AND PRIVACY FOR MARRIED WOMEN, NONETHELESS CRITICIZED THIS ASPECT OF THE PROPOSALS.

FOR THAT IS AN ABSOLUTELY INEVITABLE FEATURE OF ALL THE DIFFERENT REFORMS OF TAXATION OF HUSBAND AND WIFE THAT HAVE BEEN PROPOSED OVER THE YEARS.

AND IT HAS IMPORTANT BENEFITS FOR MANY MARRIED WOMEN ON LOW INCOMES, INCLUDING PENSIONERS IN PARTICULAR.

Sep. page, unnumbered.  
- 39 -

OF THOSE MARRIED WOMEN WHO WILL GAIN <sup>financially</sup> FROM THE  
INTRODUCTION OF INDEPENDENT TAXATION, THE MAJORITY OF  
WHOM, INCIDENTALLY, WILL BE ELDERLY, NEARLY  
THREE-QUARTERS HAVE INCOMES OF LESS THAN £5,000 A YEAR.

Move to old p 37

IN MY PREDECESSOR'S FIRST BUDGET, IN 1979, HE CUT THE BASIC RATE OF INCOME TAX FROM 33 TO 30 PER CENT, AND ANNOUNCED AS OUR GOAL A FURTHER CUT TO 25 PER CENT AS AND WHEN IT WAS PRUDENT TO DO SO.

HE ALSO CUT THE TOP RATES OF TAX FROM THEIR ABSURD LEVELS THEN, OF 83 PER CENT ON EARNED INCOME AND 98 PER CENT ON INVESTMENT INCOME.

SINCE THEN, WE HAVE MADE CONSIDERABLE ~~PROGRESS~~ IN  
REDUCING INCOME TAX, WITH ~~HIGHER~~ PERSONAL ALLOWANCES,  
CUTS IN THE ~~BASIC~~ RATE, AND THE ABOLITION OF THE  
~~INVESTMENT~~ INCOME SURCHARGE.

IT IS, INCIDENTALLY, THE HEIGHT OF EFFRONTERY FOR  
OPPOSITION SPOKESMEN TO COMPLAIN THAT THOSE BELOW THE TAX  
THRESHOLD CAN'T BENEFIT FROM A BUDGET THAT REDUCES INCOME  
TAX.

DO THEY THINK WE SHOULD HAVE REDUCED THRESHOLDS, IN REAL  
TERMS, INSTEAD OF RAISING THEM?

[CF LABOUR.]

That's what they did when they were in office,  
with the single allowance falling by more  
than 20 per cent in real terms.

Move to <sup>old</sup> p 44  
Make new page 25.

WE HAVE NOW DONE SOMETHING WHICH HAS NEVER BEEN DONE BEFORE: WE HAVE CUT INCOME TAX IN 7 SUCCESSIVE BUDGETS - WHICH, UNDER THIS GOVERNMENT, MEANS 7 SUCCESSIVE YEARS.

COMPARE BUDGET DAY NOW WITH THE SENSE OF APPREHENSION AND DREAD WITH WHICH, UNDER THE LAST GOVERNMENT, THE BRITISH PEOPLE WAITED TO FIND OUT WHAT FATE WOULD BEFALL THEM EACH MARCH - AND JULY AND NOVEMBER.

24

- ~~24~~ -

THIS YEAR, WE WERE ABLE TO ACHIEVE OUR DECLARED GOAL OF  
REDUCING THE BASIC RATE TO 25 PER CENT.

FROM A THIRD UNDER THE LAST LABOUR GOVERNMENT, TO A  
QUARTER NOW.

AND I MADE A PLEDGE THAT WE WOULD REDUCE IT FURTHER, TO  
20 PER CENT, AS SOON AS IT IS PRUDENT AND SENSIBLE TO DO  
SO.

~~- 45 -~~ 26

THE CUT IN THE BASIC RATE TOGETHER WITH THE DOUBLE INDEXATION OF PERSONAL ALLOWANCES, ACCOUNTED FOR THREE-QUARTERS OF THE COST OF THE INCOME TAX PACKAGE IN THE BUDGET IN THE COMING YEAR.

BUT IT WAS CLEARLY RIGHT TO REDUCE THE HIGHER RATES TOO. ALL THE EXPERIENCE, IN THIS COUNTRY AND OVERSEAS, HAS DEMONSTRATED THE FUTILITY OF LEVYING HIGH TAX RATES IN SOME MISGUIDED SEARCH FOR SOCIAL JUSTICE.

IT IS CLEAR THAT ALL THAT DOES IS ENCOURAGE DISTORTIONS AND DISCOURAGE ENTERPRISE.

27

- 46 -

*Aron*

WITH HIGH TAX RATES, FAR TOO MUCH WASTED EFFORT IS PUT IN  
TO FINDING EVER MORE COMPLICATED WAYS OF AVOIDING  
TAX - THOUGH SOME SIMPLY GIVE UP AND DEPART FOR MORE  
HOSPITABLE CLIMATES OVERSEAS.

AND AS THE LOOPHOLES EMERGE, MORE CONVOLUTED LEGISLATION  
IS NEEDED TO BLOCK THEM WITH THE RESULT THAT THE TAX  
SYSTEM GETS EVER MORE COMPLICATED.

NO-ONE BENEFITS EXCEPT TAX ACCOUNTANTS AND TAX LAWYERS. //

28  
471-

hh. IT IS FAR BETTER <sup>both</sup> TO CUT HIGHER RATES OF TAX AND <sup>to</sup> SWEEP  
AWAY AS MANY AS POSSIBLE OF THE SHELTERS AND TAX BREAKS  
WHICH WERE AN INESCAPABLE PART OF A HIGH TAX REGIME.  
AND THAT IS WHAT I HAVE DONE IN THIS BUDGET.

29

- ~~48~~ -

, and indeed for  
capital gains,

✓ THE CHANGES IN THE TAX REGIME FOR FORESTRY, FOR  
COVENANTS, FOR COMPANY CARS, FOR GOLDEN HANDSHAKES, ALL  
THESE SWEEP AWAY ~~COMPLICATED OR UNDULY GENEROUS PARTS OF~~  
~~THE TAX SYSTEM~~ WHICH HAVE NO PLACE WHEN TAX RATES ARE  
LOWER.

tax breaks

// p 29 ends here.

OUR EXPERIENCE SINCE 1979 CLEARLY DEMONSTRATES THE RESULTS.

IN 1978-79, THE TOP 5 PER CENT OF TAX PAYERS CONTRIBUTED 24 PER CENT OF INCOME TAX REVENUES.

By <sup>this year</sup> ~~1987-88~~, FOLLOWING THE CUTS IN TOP RATES IN THE 1979 BUDGET AND THE ABOLITION OF THE INVESTMENT INCOME SURCHARGE IN THE 1984 BUDGET, THE TOP 5 PER CENT ~~NONETHELESS~~ CONTRIBUTED 29 PER CENT OF INCOME TAX REVENUES.

<sup>Higher Rate Yields</sup> EVEN AFTER THE ABOLITION OF THE HIGHER RATES ABOVE 40 PER CENT, THE FORECAST IS THAT THEY WILL CONTRIBUTE 27 PER CENT OF TAX REVENUES IN 1988-89 - WELL ABOVE THE LEVEL IN 1978-79.

AND THIS IS BEFORE ANY ACCOUNT IS TAKEN OF THE EXTRA REVENUE WHICH WILL BE GENERATED FROM THE GREATER INCENTIVE TO ENTERPRISE, AN EFFECT WHICH WILL INCREASINGLY BE FELT.

Sep. unnumbered  
page.

- 50 -

30

IT IS FOR THESE REASONS THAT GOVERNMENTS ALL AROUND THE WORLD ARE RECOGNISING THE VIRTUES OF CUTTING INCOME TAX RATES.

X EVEN THE LABOUR GOVERNMENTS IN AUSTRALIA AND NEW ZEALAND HAVE EMBARKED ON THIS ROAD, *particularly New Zealand.*

IT IS ONLY THE LABOUR PARTY HERE WHICH, OSTRICH-LIKE, KEEPS ITS HEAD IN THE SAND AND PRETENDS THAT HIGH TAX RATES ARE A GOOD THING.

INDEED, THEY COMPLETELY FAIL TO UNDERSTAND THE BASIC POINT.

IN THEIR ELECTION MANIFESTO LAST YEAR, THEY SAID, IN A SECTION IRONICALLY HEADED 'PAYING FOR THE RECOVERY PROGRAMME', 'WE WILL REVERSE THE EXTRA TAX CUTS WHICH THE RICHEST 5 PER CENT HAVE RECEIVED FROM THE TORY GOVERNMENT AND ALLOCATE THAT MONEY INSTEAD TO THE MOST NEEDY'.

THAT'S LABOUR ECONOMICS FOR YOU.

THEY DON'T SEEM TO HAVE REALISED THAT THE TOP 5 PER CENT ARE PAYING MORE, NOT LESS TAX.

£2½ BILLION MORE, TO BE PRECISE.

BUT OF COURSE IT'S NOT REVENUE RAISING THEY'RE INTERESTED IN AT ALL, STILL LESS FINDING THE MONEY TO PAY HONESTLY FOR PUBLIC SERVICES.

ALL THAT MOTIVATES THEM IS ENVY AND SPITE.

[IT IS STRIKING THAT BY THE END OF THIS 4-DAY DEBATE, THEY ARE STILL WHOLLY UNABLE TO TELL US WHAT THEY THINK THE TOP RATE OF TAX OUGHT TO BE.]

REDUCING INCOME TAX GIVES PEOPLE MORE FREEDOM AND MORE EFFECTIVE CHOICE.

WITH LOWER TAXES, PEOPLE HAVE MORE TO INVEST IN THEIR FAMILIES, IN THEIR HOPES AND IN THEIR COMMUNITIES.

THE POLICY OF HIGH TAXES STEMS FROM A BELIEF THAT THE STATE KNOWS BETTER HOW TO SPEND PEOPLE'S MONEY.

WE BELIEVE THAT THE REVERSE IS TRUE: THAT PEOPLE SHOULD BE LEFT SO FAR AS POSSIBLE TO MAKE THEIR OWN CHOICES.

ALL EXPERIENCE, BOTH IN THIS COUNTRY AND OVERSEAS, DEMONSTRATES THE VITAL IMPORTANCE OF THE LINK BETWEEN ECONOMIC AND POLITICAL FREEDOM.

WE ON THIS SIDE OF THE HOUSE UNDERSTAND THAT FUNDAMENTAL TRUTH, AND OVER THE LAST NINE YEARS HAVE DEMONSTRATED OUR ABILITY TO PUT IT INTO PRACTICE.

WE SHALL CONTINUE TO DO SO; AND I COMMEND THIS BUDGET TO THE HOUSE.

UNCLASSIFIED



FROM: A C S ALLAN

DATE: 21 March 1988

*pmf*

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Culpin  
Mr Odling-Smee  
Mr Sedgwick  
Mr Pickford  
Mr R I G Allen  
Mr Cropper  
Mr Tyrie  
Mr Call

Mr McManus IR

**DRAFT OF CHANCELLOR'S WIND-UP SPEECH**

... I attach a rough draft of the Chancellor's speech for today.

2. The Chancellor will be working through this in detail himself this morning. He would be grateful for any comments by midday today.

*ACSA*

A C S ALLAN

## **BUDGET DEBATE WIND-UP**

This Budget is a continuation of the policies we have pursued consistently for nearly nine years - and will continue to pursue: a continuation of the policies we have introduced in nine previous Budgets; and of the major reforms we have introduced in other fields, all designed to encourage enterprise and liberate the supply side of the economy.

2. It is these policies that have brought about a profound cultural change in Britain. And unprecedented economic success.

3. No longer do people accept that economic policy should be about regulating everyone's lives, and imposing penal tax rates in the illusion that that will benefit those on lower incomes.

4. Instead, it is now widely recognised that there are enormous benefits in getting the State off people's backs, in transferring decision-making from the State to the people. And it is now abundantly clear that giving greater freedom and greater incentives has removed the

shackles which held back Britain for so many wasted years and has liberated a great surge in enterprise.

5. It has changed the attitudes and behaviour of the British people. From the bitterness and recrimination in industrial relations in the 1970's, there is now a new spirit of cooperation and of determination to work together. From an in-bred tendency to expect failure in world markets, there is now confidence that our firms will be able to compete successfully both at home and abroad. From the bureaucracy and Socialist intervention which used to stifle the best efforts of industry and commerce, there is now a buoyant and expanding private sector which is stronger than ever before. This country is experiencing an economic miracle comparable in significance to that enjoyed by West Germany and Japan before us. Indeed I believe it is no coincidence that Japan's economic success has been founded on 25 years of continuous LDP Government, with the socialist party safely in opposition.

6. The results of these policies are clear to see. We have had an unprecedented 8 years of steady growth at an average rate of 3 per cent. [pad a bit]

7. The plain fact is that the economic argument has been won - once and for all. The Opposition have been strangely silent on their economic policy. Because even they have at last seen that they cannot dispute the plain truth: everyone is much better off as a result of this Government's policies, and knows it.

8. In his speech in these debates last Wednesday, [John Smith] was reduced to referring disparagingly to a "short-term boom". Well, I can understand why he refers to 8 years of steady growth as a "short-term boom". Under the last Labour Government, living standards rose by only [half of one] per cent over 5 years, whereas under our policies they rose by [over 4] per cent last year alone. So it would take a Labour Government 40 years to achieve what we achieved last year.

9. It is also a measure of the way in which the economic argument has been won, that the debate is now based on levels of output growth and inflation that were unthinkable under the last Labour Government. For example, the modest, expected and indeed desirable, slow-down in growth this year is forecast to take the growth rate back to 3 per cent, its average over the past 7 years. The last Labour Government never once achieved growth of 3 per cent. And, while we are determined to

get inflation down further, the current debate is over levels of inflation around 3 to 4 per cent - whereas the lowest annual figure achieved under the Labour Government was [8] per cent.

10. The benefits of sound and consistent policies are now being felt throughout the economy - in every region and country, and in every industry. Employment has been growing rapidly for several years, but it has taken time for that to be reflected in falls in unemployment. That has changed decisively now. Unemployment has fallen by half a million over the last year, faster than in any other major country. And our unemployment rate is now lower than that in any other major European country, except Germany.

11. This success has been achieved by rejecting the idea that the State is the engine of growth, and that the only way to stimulate the economy is by running ever larger fiscal deficits. We saw what that led to in the 70s: inflation spiraling out of control, the currency crashing, until there was no choice but to slam the engines into reverse, with deep cuts in public expenditure and savage tax increases.

12. What we have done is to adopt a policy of steadily reducing Government borrowing. And we have now reached the logical conclusion, a balanced budget.

13. Our legacy to future generations will not be an ever increasing burden of debt interest, but a reducing one. And this is already allowing us to spend more on priority services - including health - while keeping to our overall objectives of reducing public expenditure as a share of total national income.

14. A balanced budget has, as I said in my Budget statement, a good historical pedigree. You do not have to look back to the history of the last century to see that. The 1944 Employment Policy White Paper, for example, said

"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."

This point was soon forgotten by the so-called Keynesians who seized on the idea that Government deficits were the route to faster growth. It is now quite clear that this was a false - and extremely damaging - nostrum.

15. Hon members opposite try to pretend that we have only been able to balance the Budget because of windfall revenues from oil. They should look at the figures. In

1988-89, oil revenues will be a shade over £3 billion. So we would have a balanced budget even with no oil revenues at all.

16. What has brought us to this position, is the virtuous circle of lower borrowing and lower tax rates creating both opportunities and incentives for the private sector to expand. And that in turn has generated the higher revenues which has again allowed us to achieve the hat-trick of lower tax rates, higher public spending and lower borrowing - indeed the elimination of borrowing altogether.

17. It is a nonsense for the party opposite to make fanciful suggestions about what they would have done with the revenues if they had been in Government. For the plain fact is that had they been in Government the revenues would not have been there in the first place. They weren't in the 1960s. They weren't in the 1970s. And they wouldn't be now, either.

18. And a crucial part of the virtuous circle is the pursuit of tax reforms that reward and encourage enterprise, something completely alien to Labour's philosophy.

19. We don't have to theorise about the benefits of tax reform. They are vividly illustrated by the reforms to corporation tax which I introduced in 1984. I simplified the system, reduced initial allowances, and cut the rate from 52 per cent to 35 per cent - then the lowest rate in any major country, and even now below that in all other countries except the US, whose rate is 34 per cent. This change, coupled with other reforms we have introduced, has spurred British industry on to far higher levels of output and profitability, with higher revenues to the Exchequer as a result.

20. Part of the same process was the abolition of stock relief. The ending of this relic from the inflationary 70s has encouraged British industry to manage their stocks much more efficiently, and this in turn has meant the virtual ending of the "stock cycle", this contributing to the steadiness of economic growth.

21. The principles of lowering tax rates, reducing or abolishing unwanted tax breaks, and making life simpler have been ones we have applied consistently since 1979. For they have served the economy well. The tax changes in this Budget build on many of the reforms I and my predecessor initiated in earlier Budgets.

22. On capital taxes, for example, the system bequeathed by Labour had no less than 17 different rates of capital transfer tax on lifetime gifts and 14 on transfer at death. We had already taken great steps to simplify these, and I had in particular abolished the tax on lifetime transfers altogether. And in this year's Budget, I have set a single flat rate for inheritance tax, at 40 per cent.

23. On capital gains tax, the system we inherited bit harshly on inflationary gains made in the 1970s. My predecessor was able to make a start on rectifying this in his Budget in 1982. I extended the indexation provisions in 1985. And in this year's Budget, I was able to announce the logical conclusion, that gains made before 1982 should be exempt from tax altogether.

24. But at the same time, it was right to remove one distortion from the system: under the existing regime, gains are taxed at a flat rate of 30 per cent, regardless of whether the taxpayer pays basic or higher rate income tax. This meant that a basic rate taxpayer faced a higher rate on capital gains, while a higher rate taxpayer faced a lower one. With top rates of 60 per cent it would have been manifestly impossible to tax gains at income tax rates. But with the new, lower,

income tax rates, this became the logical step. It will remove the distortion caused by taxing income and gains at different rates, when very often there is significant scope for higher rate tax payers in particular to convert income into gains to minimise their tax liability. This change will ensure that investment decisions are not distorted by the tax advantage of investing for gains rather than income.

25. Underlying many of the changes we have made since 1979 has been the special need to encourage small businesses, where much of the dynamism of the economy springs from. The most important step, of course, has been to cut the small companies corporation tax rate from 42 per cent in 1979 to 25 per cent now - a cut of two-fifths. But over the years we have introduced many other measures designed to encourage small businesses, including, for example, raising the VAT threshold by the maximum permitted under Community law, and introducing, in my Budget last year, the important new provisions for cash accounting for VAT. And the changes we have made to CGT retirement relief - which I was able to extend significantly in this year's Budget - and to inheritance tax, mean that it is possible for an entrepreneur to build up a business and pass it on to his family without saddling them with a crippling tax burden.

26. In this Budget, it was right to concentrate on personal taxation - and on income tax in particular. We had made some substantial progress in previous Budgets,

but it was clear that this was an area ripe for reform.

27. One historic reform I announced was in the tax treatment of married women. The existing system, with the wife's income treated for tax purposes as belonging to her husband, had lasted 180 years. It was becoming increasingly indefensible. There have been numerous proposals for reform, not just under this Government but before that. But the problems had always seemed daunting, and little progress had been made.

28. I decided that the time had come to act. My proposals will for the first time ensure complete privacy and independence for married women in their tax affairs, and this has been widely welcomed. What the proposals mean is that married women will be taxed completely independently from their husbands, with their own personal allowances, and their own annual exemptions for capital gains.

29. But it is clearly right that the tax system should recognise marriage, and so I announced a new married couple's allowance, which will ensure that married men do not see their tax allowances fall.

30. At the same time, it was clearly right to eliminate the so called tax penalties on marriage - the quirks in the existing system which mean that some unmarried

couples pay less tax than a married couple in the same circumstances. The most important of these - the taxation of a wife's income at her husband's marginal rate - is eliminated by the introduction of independent taxation. I was surprised to see that some of those who welcomed the move to independence and privacy for married women, nonetheless criticized this aspect of the proposals. For that is an absolutely inevitable feature of all the different reforms of taxation of husband and wife that have been proposed over the years. And it has important benefits for many married women on low incomes, including pensioners in particular. Of those married women who will gain from the introduction of independent taxation, some X per cent have incomes of less than £5,000 a year.

31. In my predecessor's first Budget, in 1979, he cut the basic rate of income tax from 33 to 30 per cent, and announced as our goal a further cut to 25 per cent as and when it was prudent to do so. He also cut the top rates of tax from their absurd levels then, of 83 per cent on earned income and 98 per cent on investment income.

32. Since then, we have made considerable progress in reducing the burden of income tax, with higher personal allowances, cuts in the basic rate, and the abolition of the investment income surcharge.

33. The benefits of this in terms of incentives are clear. Indeed, the real point is that tax rates should never have been allowed to get that high in the first place. High tax rates do terrible damage to the engines of growth and dynamism in the economy, and it is clearly right that, in Budget after Budget, we should reduce the burden of income tax.

34. We have now cut income tax in 7 successive Budgets - which, under this Government, means 7 successive years. Compare Budget Day now with the sense of apprehension and dread with which, under the last Government, the British people waited to find out what fate would befall them each March - and all too often in each June and each November too.

35. This year, we were able to achieve our goal of reducing the basic rate to 25 per cent. From a third under the last Labour Government, to a quarter now. And I made a pledge that we would reduce it further, to 20 per cent, as soon as it is prudent to do so.

36. The cut in the basic rate together with the double indexation of personal allowances, accounted for three-quarters of the cost of the income tax package in the Budget. But it was clearly right to reduce the

higher rates too. All the experience, in this country and overseas, has demonstrated the futility of levying high tax rates in some misguided search for social justice. It is clear that all that does is encourage distortions and discourage enterprise.

37. With high tax rates, far too much wasted effort is put in to finding ever more complicated ways of avoiding tax - though some simply give up and depart for more receptive climates overseas. And as the loopholes emerge, more convoluted legislation is needed to block them with the result that the tax system gets ever more complicated. No-one benefits except tax accountants and tax lawyers.

38. It is far better to cut higher rates of tax and sweep away as many as possible of the shelters and tax breaks which were an inescapable part of a high tax regime. And that is what I have done in this Budget.

39. The changes in the tax regime for forestry, for covenants, [for maintenance payments], for company cars, for large redundancy payments, all these sweep away complicated or unduly generous parts of the tax system which have no place when tax rates are lower.

40. Our experience since 1979 clearly demonstrates the results. In 1978-79, the top 5 per cent of tax payers contributed 24 per cent of income tax revenues. By 1987-88, following the cuts in top rates in the 1979 Budget and the abolition of the investment income surcharge in the 1984 Budget, the top 5 per cent nonetheless contributed 29 per cent of income tax revenues. Even after the abolition of the higher rates above 40 per cent, the forecast is that they will contribute 27 per cent of tax revenues in 1988-89 - well above the level in 1978-79. And this is before any account is taken of the extra revenue which will be generated from the greater incentive to enterprise, an effect which will undoubtedly come through in time.

41. It is for these reasons that Governments all around the world are recognising the virtues of cutting income tax rates. Even the Labour Governments in Australia and New Zealand have embarked in this road. It is only the Labour Party here which, ostrich like, keeps its head in the sand and pretends that high tax rates are a good thing.

42. Indeed, they completely fail to understand the basic point. In their election manifesto last year, they said, in a section ironically headed 'Paying for the Recovery

Programme', 'we will reverse the extra tax cuts which the richest 5 per cent have received from the Tory Government and allocate that money instead to the most needy'. That's Labour economics for you. If they had eliminated the tax cuts to the top 5 per cent, they would have had £3 billion less revenue. Even if the Labour Party do not understand that point, the electorate do, and that is why they saw through their promises to pay for extravagant programmes from money that simply wouldn't be there.

43. But perhaps that is no longer their policy. It is certainly not at all clear what their policy is. [John Smith] studiously avoided saying what their policies were. [continue with some Tyrie-type points]

#### Peroration

44. Cutting income tax gives people more freedom and more effective choice. With lower taxes, people have more to invest in their families, their hopes and their communities. The policy of high taxes stems from a belief that the State knows better how to spend people's money. We believe that exactly the opposite is true: that people should be left so far as possible to make their own choices. The evidence of history and from many different countries around the world suggests that there is an important link between economic and political freedom. We on this side of the House understand the point, and over the last nine years have demonstrated our ability to put it into practice.

mjd 1/112B

UEL

Several hon Members have raised the question of National Insurance Contributions, and the Upper Earnings Limit in particular. Indeed [John Smith] criticised the present system, but did not make it clear whether his Party favoured abolishing the UEL. I suspect that, as with so much else in the tax system, he simply doesn't understand the point. Entitlements to the State Earnings Related Pension Scheme are based on earnings between the Lower Earnings Limit and the Upper Earnings Limit. It is true that no additional contributions are payable on earnings above the UEL. But nor are any benefits received.



INLAND REVENUE  
STATISTICS DIVISION  
SOMERSET HOUSE

FROM: R J EASON

DATE: 22 MARCH 1988

PS/CHANCELLOR OF THE EXCHEQUER

**BUDGET DEBATE WIND-UP SPEECH**

1. Mr Taylor asked for urgent statistics on 4 points for the Chancellor's wind-up speech in the Budget Debate. This note simply puts on record the information supplied by telephone.

2. The first request was for the number and/or proportion of taxpayers in Japan who pay at the top rate of income tax. Unfortunately P5 do not have this information to hand and could not obtain it quickly from the Japanese Embassy.

3. The second point concerns widows taken out of tax by the increases in tax thresholds. Compared with the 1987-88 tax regime, the Budget proposals take 60,000 people claiming widows bereavement allowance out of tax. The allowance is available in the year of bereavement and the following year only. Other widows cannot be identified in our statistical

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cc PS/Financial Secretary  
Mr Culpin  
Mr Scotter

Mr Calder  
Mr Mace  
Mr Eason  
Miss White  
PS/IR

records, but there will be many widows amongst the 110,000 single females also taken out of tax by the Budget.

4. The third request asked for changes under the Chancellor's five Budgets since 1983-84. Since then the single allowance has increased by 17.5% in real terms and the married allowance by 18.0%. These increases have taken 1.3 million individuals out of tax (comparing the indexed 1983-84 regime with the Budget proposals for 1988-89). These comprise

|         |               |
|---------|---------------|
| 490,000 | single people |
| 310,000 | husbands      |
| 500,000 | earning wives |

The same comparison shows that income tax liability has been cut by about £14 billion of which about £3 billion is reduction in higher rate tax liability.

5. Mr I Scotter has replied separately on the last point asking for an analysis of non-taxpayers.



**R J EASON**

FROM: G C NORBURY  
S3 WEST WING  
SOMERSET HOUSE  
WC2R 1LB

438-6374

DATE: 22 MARCH 1988

1. I attach yesterday's Budget debate summary.
2. I would be grateful to receive any comments, suggestions or criticisms that you might like to make about this year's summaries.

*G C N.*

G C NORBURY

HOUSE OF COMMONS DEBATES  
BUDGET DEBATE  
SUMMARY OF REVENUE POINTS

VOL 130 No 119  
MONDAY 21 MARCH 1988 (Fourth Day)

- Col 41 Mr N Fowler (SoSEmploy) Budget has many strengths. Purpose of taxation to raise revenue not punish success.
- Col 42 Budget strategy - "defeat inflation/vigorous economy/growth of output & employment."  
  
No Labour policy on inflation. Their poor record - lack of social justice.
- Col 43 Labour's poor record on social services.
- Col 43 Mr Max Madden (La) New social security proposals & Budget no help to poor.
- Col 44 Mr N Fowler (SoSEmploy) Labour's poor record. Unemployment now falling.
- Col 45 Mr Bryan Gould (La) When will unemployment reach 1979 level?
- Col 45 Mr N Fowler (SoSEmploy) Unemployment falling faster than any other European country. Budget will help.  
  
Expansion of small businesses good for employment.  
  
Training programmes.  
  
Excessive pay settlements & strikes damage economy.
- Col 46 Dundee union dispute.  
  
Business confidence & inward investment increasing.  
  
Budget for growth.
- Col 46 Mr Bryan Gould (La) Budget for rich.

|                                   |   |
|-----------------------------------|---|
| Col 47                            | Opposition point out unfairness of Govt. policies - rich benefit but poor suffer more.  |
| Col 48                            | Benefits to rich not necessarily beneficial to economy.   |
| Col 48 <u>Mr David Shaw</u> (C)   | Reductions in NZ <u>top rate</u> <u>beneficial</u> to NZ economy.   |
| Col 48 <u>Mr Bryan Gould</u> (La) | Little evidence for incentive effect of <u>tax cuts for rich.</u>   |
| Col 49                            | <u>Ch X has increased no. of tax shelters.</u>  |
| Col 49 <u>Mr Ian Taylor</u> (La)  | <u>Tax revenue from top 5% has increased since 1979.</u>  |
| Col 49 <u>Mr Bryan Gould</u> (La) | <u>Tax system manipulated to benefit rich.</u><br><br>Budget inspired by Ivan Boesky.<br><br>Country divided - inequality is inefficient.                               |
| Col 50                            | <u>Money for tax cuts should have gone to NHS. BoP deficit increasing.</u>  |
| Col 51                            | Manufacturing deficit. Growth should bring BoP surplus. Govt. policy has decimated industry. UK now less competitive.   |
| Col 52                            | Interest rates too high. Little impact on credit but damaging to industry.  |
| Col 53                            | Low interest rates encourage future investment - high interest rates encourage consumption.<br><br>High exchange rate has same effect.<br><br>Budget for short-termism. |

Col 54 Mr Edward Heath (C)

Budget improves tax system. Independent taxation right. Worries on CGT administration.

Level of taxes not fully explained. No objection to reductions in principle.

Col 55

Tax burden lower under Heath Govt. Budget no benefit to unemployed.

Col 56

Problems of unemployment. No housing in areas of labour shortages.

Budget will increase consumer demand.

Col 57

Sterling too high - will reduce inflation but also destroy UK businesses.

Join EMS. Lower interest rates will reduce money inflows - only interest rates can be used to manage the economy now.

Col 58 Mr Ian Gow (C)

Ch X has repaid debts - good for economy.

Col 58 Mr Edward Heath (La)

Money must be invested to have any beneficial effect.

Family trust loophole should be stopped.

Tax credit system should be introduced.

Col 58 Mr David Steel (SLD)

Welcomed:- independent taxation  
- forestry reforms.

Budget benefits rich. Tax credit system would help those in poverty trap.

Col 60

Social injustices. Credit boom.

Manufacturing should be encouraged by joining EMS;

|                                      |  |
|--------------------------------------|--|
|                                      | investing in training;<br><u>reducing NICs &amp; CT in</u><br><u>areas of high unemployment</u><br><u>&amp; redirecting investment</u><br><u>away from SE; &amp; encourage</u><br><u>profit-sharing &amp; industrial</u><br><u>partnerships.</u> |
|                                      | Anti-social Budget.  |
| Col 61 <u>Mr Terence Higgins</u> (C) | <u>Opposition fail to</u><br><u>mention basic rate cut &amp;</u><br><u>increase in thresholds.</u>   |
| Col 62                               | Budget concerned with<br>raising revenue, not<br>spending. Could bring<br>together debates. Govt.<br>providing more for NHS.   |
|                                      | <u>Welcomed:</u> - independent<br>taxation.  |
|                                      | <u>Single European market a</u><br><u>great opportunity.</u>   |
| Col 63                               | <u>Problems of VAT</u><br><u>harmonisation.</u>  |
|                                      | Margin of error in<br>estimating PSBR.   |
|                                      | Exchange rates.  |
| Col 64                               | Supply & demand different<br>in macro- &<br>microeconomics. Seek<br>stability of exchange<br>rates & international<br>co-ordination.   |
|                                      | Memorable Budget.  |
| Col 64 <u>Mr Robert Sheldon</u> (La) | Bring together debates on<br>revenue & spending.   |
|                                      | Budget for rich.   |
| Col 65                               | <u>Should have abolished</u><br><u>many tax reliefs -</u><br><u>reformed others.</u>   |
|                                      | Intellectually unexciting<br>Budget.   |

|  |   |
|--|---|
|  | Exchange rate precursor of trade patterns. Affects employment.  |
| Col 66                                   | Govts. & markets interact. Economic boom due to North Sea oil - protected BoP. Credit & property booms.                 |
| Col 67                                   | Profligacy with North Sea oil.  |
|  | Wrong to assume that any economic benefit flows from stimulating rich. No intellectual justification for such a policy. |
| Col 68                                   | Should be linkage of child benefit.   |
|  | Unfair Budget.  |
| Col 68 <u>Sir Ian Lloyd</u> (C)          | <u>Welcomed:</u> - Budget<br>- economic upturn<br>- <u>tax cuts.</u>  |
| Col 69                                   | NHS funding - international comparisons & problems.   |
| Col 70 <u>Mr D Campbell-Savours</u> (La) | Public simply want more spent on NHS.   |
| Col 70 <u>Sir Ian Lloyd</u> (C)          | NHS spending not unique - must compete for funds. Preventive medicine more effective.                                   |
| Col 71                                   | Morality & economics not to be confused.  |
|  | Rich not idle.  |
|  | USSR retreating from equality.  |
| Col 72                                   | High interest rates encourage more discriminating investment.   |
| Col 72 <u>Mr Tom Pendry</u> (La)         | Damaging effects of high interest rates.  |

|                                     |   |
|-------------------------------------|---|
| Col 73                              | <p>Budget does nothing for majority.</p> <p>"Action for Cities" pre-empted by Tameside Labour council.</p>  |
| Col 74                              | Problems of Tameside.   |
| Col 75 <u>Mr Cranley Onslow</u> (C) | Labour answer "Spend, spend, spend."  |
| Col 76                              | <p><u>Economy must be in best possible condition to benefit from single European market. Tax changes provide such incentives.</u></p> <p>France &amp; Germany our major competitors - this Budget prepares us for leadership of Europe.</p> |
| Col 77 <u>Mr Denis Howell</u> (La)  | <p>Link between Budget &amp; morality. Budget for rich. NHS lack of resources immoral. Budget ignores poverty.</p>  |
| Col 78                              | <p><u>Not everyone gains from tax relief.</u></p> <p>High infant mortality &amp; unemployment in central Birmingham.</p> <p><u>Not against reducing taxation where possible: but poor must come first.</u></p>                              |
| Col 79                              | <p>Trade unions coming to accept and welcome EC membership.</p> <p>Decline of manufacturing a worry. Exchange rate should be managed.</p> <p>Lack of R &amp; D and training in Birmingham.</p> <p>Rejects "bottom line" mentality.</p>      |

Col 80

Investors demand too high RoRs.

Right to work for all.

"Greedy 5, Needy 0."

Col 80 Mr John Redwood (C)

Govt. not dependent on oil revenues. Bulk of revenue generated in non-oil sector.

Col 81

Service sector more important.

Gap between real interest rates & RoRs crucial for investors. RoRs increasing.

Opposition want higher taxes & more spending, esp. on NHS. Govt. has done this. Tax cuts have filter-down effect.

Col 82

Tax burden to be reduced.

NHS spending up.

PSBR should be zero - or negative to repay debt.

Interest rate fall good. Substantial surplus capacity in economy can accomodate fall.

Col 83

Welcomed: - tax simplification  
- closing of loopholes

Top rate cuts will not cost £2bn.

Mortgage relief ceiling too low.

Splendid Budget.

Col 83 Mr Brian Sedgemore (La)

Budget for rich.

Col 84

Rich will celebrate.

Col 86

A Budget too far.

Col 86 Mr Leon Brittan (C)

Right to maintain tight  
fiscal stance - keep  
battling inflation.

Col 87

Personal taxation could  
be reformed further by  
abolishing reliefs.

Helping low-paid  
preferable to reducing  
basic rate to 20%.

Improve incentives by  
increasing thresholds.

Col 88

Take 3 million people out  
of tax. Consider reduced  
rate band.

Reduce unemployment.

NHS spending increased.

Col 89

Nurses' pay.

Exchange rate target  
should be explicit.

Col 90 Mr Peter Shore (La)

Reduction in tax burden  
on poor a priority.  
Reintroduce reduced rate  
band. Budget abandons  
progressive taxation.

Taxation still a higher  
burden than under Labour  
because of higher  
unemployment.

Unemployment requires high  
growth to sustain fall.

Budget mostly for rich.  
Attempt to make UK a more  
unequal society.

Col 91

No strong evidence for  
inequality leading to high  
growth.

Brain drain continuing.  
Lack of funding for R & D.

Explosion in pre-tax  
incomes accounts for extra

Col 92

% paid by top-rate taxpayers.

Taxation can correct income imbalances - but this Budget will not. Poll tax ideal for Tories - no redistributive function.

Consumer & credit boom accounts for growth in last 4 years.

BoP demands need lower exchange rate. Public expenditure could play a role.

Balanced Budget not matched by balanced economy.

Col 93

Budget outraged public opinion.

Col 93 Sir Peter Hordern (C)

Budget will improve GNP & allow greater public expenditure. Greater contingency allowance will permit greater spending.

Good idea to have balanced Budgets in future. No PSBR means lower interest rates.

Revenue has increased despite lower tax rates.

Tax-cutting not yet over.

Exchange & interest rates. Sterling should follow DM.

Col 95

DM alignment would lead to German conditions of zero inflation. Govt.'s exchange rate policy not clear.

Cheap money policy & large PSBR in 1973 - not so now.

Single European market a great opportunity.

Col 96

UK advantages over German economy.

Col 96 Mr Dafydd Wigley (PlCym)

Welcomed: - led  
petrol change  
- car perks  
changes  
- forestry  
changes  
- threshold  
increases

Strategic error - no help for employment. Budget for top 5% of earners.

Col 97

Budget surplus should have been used to help jobless.

Tax relief for top earners should have been reduced if Govt. spending programmes not to expand.

Lower interest rates would lead to lower exchange rates and thus benefit exporters.

Col 98

Indirect taxation increases a blow to rural areas.

Welsh NHS crisis. Govt. policy a priority of greed over need.

No mandate for tax cuts over NHS spending.

Col 99

Opposition must challenge Govt.

Budget for SE England.  
Class-based Budget.

Col 99 Mr Keith Raffan (C)

Near unanimity of Govt. side on Budget. Low-tax economy a high-incentive economy.

Welcomed: - independent  
taxation  
- raising tax  
thresholds  
- abolition of

|                                       |   |
|---------------------------------------|---|
|                                       | higher rates  |
|                                       | <u>Tax cuts can raise revenues.</u>   |
| Col 100                               | Increase in spending on NHS. Labour's poor record.<br>Economic strength.  |
| Col 100 <u>Mr Gordon Brown</u> (La)   | Budget for rich. Contrast with social security reforms.   |
| Col 101                               | 9 million worse off after April. Nothing for justice nor competitiveness in Budget. Long term investments would secure future growth.<br>Investment still low despite <u>tax cuts</u> . |
| Col 102                               | Other countries with higher tax rates invest more.<br>Invest in training and R & D. Invest in regions to reduce over-heating in SE.<br><u>BES will subsidise Rachmans.</u>              |
| Col 103                               | Ch X has not balanced Budget. Society & economy unbalanced. BoP problem.  |
| Col 104                               | Budget a missed opportunity. NHS omitted.   |
| Col 105                               | Govt. will not spend on NHS. Social security reforms at expense of poor.  |
| Col 106                               | Budget born of greed. Epitaph for social justice.   |
| Col 107                               | Country can no longer afford this Govt.   |
| Col 107 <u>Mr Nigel Lawson</u> (Ch X) | Spending on social security at higher level than under Labour.  |

|                                       |  |
|---------------------------------------|--|
|                                       | Budget has attracted worldwide comment.  |
|                                       | UK now an enterprise economy. <u>Japanese to follow UK tax cuts.</u>               |
|                                       | NHS spending up.   |
|                                       | Budget continuation of policies.   |
| Col 108                               | <u>Enumerated tax cuts.</u> A challenge to UK business.                            |
|                                       | Profound cultural change. Great surge of enterprise.                               |
|                                       | UK experiencing economic miracle.  |
| Col 109 <u>Mr N Fairbairn</u> (C)     | Unions have destroyed jobs in Scotland.  |
| Col 109 <u>Mr Nigel Lawson</u> (Ch X) | Agreed.  |
|                                       | 7 years of growth averaging 3%.  |
| Col 109 <u>Mr Neil Kinnock</u> (La)   | Domestic debt up.  |
|                                       | Tax burden up.   |
|                                       | BoP in deficit now.  |
| Col 109 <u>Mr Nigel Lawson</u> (Ch X) | Inflation more unfair than <u>reducing top rates.</u>                              |
|                                       | Economic success.  |
| Col 110                               | Rejection of notion that state is engine of growth.                                |
|                                       | <u>Lower borrowing. Higher revenues. Labour would not have had those revenues.</u> |
|                                       | <u>Tax reforms &amp; simplification.</u><br><u>Independent taxation.</u>           |
| Col 111 <u>Mr Dick Douglas</u> (La)   | <u>Poll tax not on same basis as independent taxation.</u>                         |

Col 111 Mr Nigel Lawson (Ch X)

Both are independent  
taxation.

Govt. record & proposals  
on tax.

High tax rates benefit  
tax advisers. Better to  
cut both rates & abolish  
shelters.

Col 112

Top tax rates coming down  
round world.

Opposition motivated by  
envy & spite.

Reduction in tax gives  
people more freedom &  
choice.

Question put and agreed to.



*Chy To be made.*

*25/3*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
House of Commons  
London SW1

*Amf*  
CC: PPS, CST, RMA, EST  
Sic. P. Middleton  
Mr. Marsh  
Mr. Schdax  
Mr. Culpin  
Mr. Cleppel

Mr. Tykic  
Mr. Beighton II  
24 March 1988 PS/II.

*Dear David*

We had a word about your speech in the Budget debate on self employment.

I wonder whether it would be useful if you and I and the Chairman of the Inland Revenue had a discussion about this.

*Yours*  
*Norman*

NORMAN LAMONT

**Covering CONFIDENTIAL**

**FROM: J S HIBBERD**  
**DATE: 25 MARCH 1988**

*[Handwritten signature]*

**CHANCELLOR OF THE EXCHEQUER**

**cc : Sir Terence Burns**  
**Mr Odling-Smee**  
**Mr Sedgwick**  
**Mr Pickford**

**SIR IAN GILMOUR SPEECH IN BUDGET DEBATE: 16 MARCH**

I prepared a version of the attached brief for officials for their appearance before TCSC on 24 March. Sir Terence Burns suggested I send you a copy.

*[Handwritten signature: J S Hibberd]*

**J S HIBBERD**

cm  
brf-ig

**BR : IAN GILMOUR'S SPEECH ON THE BUDGET - HANSARD 16 MARCH**  
**COLS 1143-1146**

In a speech in the Budget debate on 16 March Sir Ian Gilmour made a number of assertions and comparisons of recent economic experience with earlier experience. This brief examines key features of his speech and offers a line to take on each. A copy of the speech is attached with the key features numbered consistently with the numbered headings of this brief.

### SUMMARY

2. Sir Ian Gilmour takes issue with the Chancellor's claim in his Budget Speech that the British economy has been transformed. He first examines the growth experience during the period of this government (1979 to date). He observes that, over that period, average growth has been lower than in any previous eight year period. On that basis, he dismisses the assertion. He goes on to say that the claim must, therefore, relate to a shorter and more recent period, specifically 1985-87. He then compares this with the expansion in 1971-73 under Mr Heath's administration, of which he was a member. Not surprisingly, he finds the comparison favourable to Mr Heath and, again, pours cold water on the Chancellor's claim. But Sir Ian is wrong on virtually every count.

### DETAILS

1. Growth 1979-87 only 1.8 per cent, lower than any other eight year period before 1979. [Col 1143].

#### Factual

Sir Ian Gilmour is right, at least as far as post-war experience goes. (It is not true pre-war. For example: 1927-35 - 1.4 per cent; 1928-36 - 1.5 per cent; 1929-37 - 1.8 per cent). Some post-war eight year periods, however, came fairly close. Thus 1968-76 - 2.0 per cent; 1969-77 - 2.0 per cent.

Line to take

In 1979 UK government adopted a more prudent fiscal and monetary policy stance than its predecessors, as part of its anti-inflation strategy. At the same time the second oil price shock sent the world economy into recession. Against such a background there was bound to be some fall in output. But there has been no previous six-year period, such as 1981-87, when growth has been sustained at a steady 3 per cent and inflation has remained low. That is a transformation.

2. Last time we had a two-year growth period as strong as 1985-87 was 1971-73. [Col 1144.]

Factual

| (i) <u>GDP Growth (Average Measure) per cent</u> |           |      |           |                    |
|--|-----------|------|-----------|--------------------|
|  | 1969      | 2.5  | 1983      | 3.3                |
|  | 1970      | 1.9  | 1984      | 2.4                |
|  | 1971      | 1.5  | 1985      | 3.7                |
|  | - - - - - |      | - - - - - |                    |
|  | 1972      | 2.4  | 1986      | 3.0                |
|  | 1973      | 7.3  | 1987      | 4.4                |
|  | - - - - - |      | - - - - - |                    |
|  | 1974      | -1.7 | 1988      | 3.0(FSBR Forecast) |
| Average  | 1972-73   | 4.8  | 1986-87   | 3.7                |
| Average  | 1969-71   | 2.0  | 1983-85   | 3.1                |
| Average  | 1969-73   | 3.1  | 1983-87   | 3.3                |
| Average  | 1969-74   | 2.3  | 1983-88   | 3.3(FSBR Forecast) |

(ii) Average growth in 1972 and 1973 was actually higher than in 1986 and 1987, 4.8 per cent compared with 3.7 per cent. But the earlier period is dominated by the unsustainable 7.3 per cent growth in 1973. Moreover, it was preceded by three years of slowing growth, averaging 2 per cent. This compares with a period of steady growth averaging just over 3 per cent in the comparable three preceeding years 1983-85.

Line to take

Last six years have seen steady growth at a satisfactory 3 per cent annual rate. On the other hand, 1972-73 experience dominated by excessive and unsustainable growth of over 7 per cent in 1973, itself prompted by very expansionary fiscal and monetary policy. It was followed by a fall in GDP of almost 2 per cent in 1974. True that the fall in 1974 was partly explained by the oil price shock of late-1973. But, coming at the same time as a rapid, policy induced expansion, the economy was not well equipped to cope with it. By contrast, we expect further growth of 3 per cent in 1988, close to the average of the last six years.

3. Policy stance (monetary and fiscal) has been strongly expansionary in 1986-87, as it was in 1972-73. [Col 4444.]

Monetary PolicyFactual

| (i)  | <u>Indicators of Monetary Policy</u>  |                 |           |                 |  |                              |
|------|---------------------------------------|-----------------|-----------|-----------------|--|------------------------------|
|      | <u>Money Supply Growth (per cent)</u> |                 |           |                 | <u>Interest Rates<br/>(per cent average)</u> |                              |
|      | <u>M3</u>                             | <u>Real M3*</u> | <u>M0</u> | <u>Real M0*</u> | <u>Nominal<br/>Short Rates</u>               | <u>Real*<br/>Short Rates</u> |
| 1970 | 5.4                                   | - 1.8           | n.a       | n.a             | 8.1  | 0.8                          |
| 1971 | 11.5                                  | 1.9             | 7.6       | -1.6            | 6.2  | -3.2                         |
| 1972 | 22.5                                  | 13.0            | 6.9       | -1.4            | 6.5  | -1.9                         |
| 1973 | 25.7                                  | 17.5            | 12.6      | 5.2             | 11.5   | 4.5                          |
| 1984 | 9.1                                   | 4.6             | 5.4       | 1.1             | 10.0   | 5.7                          |
| 1985 | 12.1                                  | 5.9             | 4.8       | -1.0            | 12.2   | 6.3                          |
| 1986 | 18.1                                  | 13.9            | 4.0       | 0.3             | 11.0   | 7.3                          |
| 1987 | 20.2                                  | 15.1            | 4.8       | 0.4             | 9.7  | 5.3                          |

\* Deflated by money GDP(MP) deflator.

(ii)

Effective Sterling Index

|        |       |
|--------|-------|
| 1970Q4 | 125.8 |
| 1971Q4 | 127.1 |
| 1972Q4 | 116.7 |
| 1973Q4 | 107.1 |
| 1985Q4 | 79.8  |
| 1986Q4 | 68.2  |
| 1987Q4 | 74.9  |

- (iii) Sir Ian Gilmour asserts that monetary policy has been as expansionary in 1986 and 1987 as it was in 1972 and 1973. He seems to base this solely on the experience of real M3. On that measure of monetary policy alone, he is right. He is wrong if we look at M0 and real interest rates. Moreover, the sterling effective index indicates tightening monetary policy through 1987.

Line to take

Sir Ian Gilmour looks only at M3. The government looks at a number of different indicators of which M3 is only one, and that not the most important one. For example, growth of real M0 was, on average, slower in 1986 and 1987 than in 1972-73. Real short-term interest rates were also considerably higher in 1986 and 1987 (and, indeed, in the preceding two years) than in the earlier period. The exchange rate also indicates a tightening of monetary policy through 1987. Overall, monetary policy has been tighter in the last two years than in the earlier period.

Fiscal PolicyFactual

- (i) Sir Ian asserts that the fiscal stance should be measured net of privatisation proceeds and council house sales. On that basis, he asserts, fiscal policy has been expansionary.

(ii)

PSBR as per cent of Nominal GDP

|         | <u>PSBR</u> | <u>PSBR excl<br/>privatisation</u> | <u>PSBR excl<br/>privatisation and<br/>council house sales</u> |
|---------|-------------|------------------------------------|--|
| 1970/71 | 1.5         | 1.5                                | 1.5  |
| 1971/72 | 1.6         | 1.6                                | 1.6  |
| 1972/73 | 3.6         | 3.6                                | 3.6  |
| 1973/74 | 5.8         | 5.8                                | 5.8  |
| 1984/85 | 3.1         | 3.7                                | 4.1  |
| 1985/86 | 1.6         | 2.3                                | 2.7  |
| 1986/87 | 0.9         | 2.0                                | 2.4  |
| 1987/88 | -0.7        | +0.4                               | +0.8   |

(iii) Sir Ian Gilmour appears to favour the Public Sector Financial Deficit gross of council house sales as a measure of fiscal stance. He asserts that the value of such sales was £4 billion in 1987/88 - they were actually £1.5 billion.

|         | <u>PSFD</u>     |                 | <u>Council House</u> | <u>PSFD including Council</u> |                 |
|---------|-----------------|-----------------|----------------------|-------------------------------|-----------------|
|         | <u>£billion</u> | <u>% of GDP</u> | <u>Sales</u>         | <u>House Sales</u>            | <u>% of GDP</u> |
|         |                 |                 | <u>£billion</u>      | <u>£billion</u>               |                 |
| 1970/71 | -0.2            | - ½             | -                    | -0.2                          | - ½             |
| 1971/72 | 0.7             | 1¼              | -                    | 0.7                           | 1¼              |
| 1972/73 | 2.0             | 3               | -                    | 2.0                           | 3               |
| 1985/86 | 8.1             | 2¼              | 1.3                  | 9.4                           | 2½              |
| 1986/87 | 9.4             | 2¼              | 1.5                  | 10.9                          | 2¾              |
| 1987/88 | 2.8             | ¾               | 1.5                  | 4.3                           | 1.0             |

Line to take

On any measure of the PSBR (or PSFD), as a share of nominal GDP, Sir Ian Gilmour is wrong. Fiscal policy has not recently been as expansionary as in 1972 and 1973.

4. Structure of demand broadly similar in both expansions - dominated by personal consumption [Col. 1145.]

Factual

| (i)                      | <u>Real Domestic Demand Growth</u> |             |             |             | per cent    |             |             |             |  |
|--------------------------|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
|                          | <u>1970</u>                        | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> |  |
| <u>Domestic Demand</u>   | 2.2                                | 2.3         | 4.1         | 7.8         | 2.8         | 3.0         | 3.8         | 4.2         |  |
| of which:                |                                    |             |             |             |             |             |             |             |  |
| Consumers' expenditure   | 2.8                                | 3.1         | 6.1         | 5.2         | 2.2         | 3.9         | 6.0         | 5.2         |  |
| General Govt Consumption | 1.7                                | 3.0         | 4.2         | 4.3         | 0.9         | 0           | 1.2         | 1.2         |  |
| Fixed investment         | 2.5                                | 1.9         | -0.3        | 6.5         | 8.0         | 3.0         | -0.3        | 3.5         |  |
| Stockbuilding*           | -0.3                               | -0.6        | -0.3        | 2.9         | -0.2        | 0.2         | 0.0         | 0.1         |  |

\* As per cent of GDP in previous year.

(ii) It is first worth noting that domestic demand grew much more rapidly in 1973 than in 1987.

(iii) Ian Gilmour maintains that the balance of demand was similar in 1972-73 to 1986-87. He is right only in so far as consumers' expenditure shows an amazingly similar path. As for the rest of demand the balance looks quite different. First general government consumption rose much faster in 1972 and 1973 (and in earlier years). Moreover, the investment path looks quite different, especially over a four-year comparison of 1970-73 with 1984-87. Finally, there was a surge in stockbuilding in 1973. There was no comparable surge in stockbuilding in 1987.

Line to take

(i) The structure of demand was not the same, nor even "broadly similar", in 1986-87 as it was in 1972-73. True, personal consumption rose at similar rates. But government consumption rose markedly faster in the earlier period. This, along with a surge in company spending - on both stocks and capital goods -, contributed to excessive and unsustainable demand growth.

- (ii) Pattern of domestic demand also different for 1988. Investment is expected to rise by 6½ per cent in 1988 as consumer spending growth slows down. In 1974 consumers' expenditure and investment both fell.

5. Recent excessive growth of consumption has generated inevitable deterioration in balance of payments. Bigger deficit expected in 1988. [Col 1146.]

Factual

- (i) Current Account of Balance of Payments (% of nominal GDP)

|           |                |
|-----------|----------------|
| 1970      | 1.5            |
| 1971      | 1.9            |
| 1972      | 0.3            |
| 1973      | - 1.4          |
| 1974      | - 4.0          |
| 1984      | 0.6            |
| 1985      | 0.9            |
| 1986      | -              |
| 1987      | - 0.4          |
| - - - - - |                |
| 1988      | - 0.9 Forecast |

- (ii) Current account did go into deficit in 1987, though the swing from surplus to deficit was not as marked as between 1972 and 1973. As share of nominal GDP it was less than in 1973. Moreover, some part of the deterioration last year (and 1988) is associated with declining N. Sea output.

Despite continued fairly strong growth expected in 1988, the current account deficit is still expected to be less than 1 per cent of GDP. In 1974 it was 4 per cent (dominated by a worsening oil balance after the 1973 oil price hike).

Line to take

- (i) Increase in imports in 1987 not just concentrated in consumer goods. Increases were across the board, including raw materials and investment goods. Deficit less than  $\frac{1}{2}$  per cent of GDP last year. Expected deficit in 1988 still less than 1 per cent of GDP.

6. Demand growth leading to capacity constraints with dangers for inflation and balance of payments.

Factual

| (i)   | <u>CBI Capacity Indicators</u> |                            |
|---|--------------------------------|----------------------------|
|   | <u>1973 Peak</u>               | <u>January 1988 Survey</u> |
| (a) Balance of firms reporting skilled labour shortages   | 51                             | 20                         |
| (b) Balance of firms reporting other labour shortages   | 27                             | 4                          |
| (c) Proportion of firms reporting below capacity working  | 39                             | 35                         |
| (d) Proportion of firms reporting capacity as constraint on output.   | 32                             | 21                         |
| (e) Proportion of firms with at least adequate capacity in relation to expected demand over next 12 months. | n.a*                           | 87                         |
| (f) Proportion of firms reporting shortages of materials and components as a factor limiting output.        | 49                             | 8                          |

\*This question did not feature until the 1979Q4 Survey.

(ii) RPI - % increase on year earlier

|        |      |        |               |
|--------|------|--------|---------------|
| 1970Q4 | 7.7  | 1984Q4 | 4.8           |
| 1971Q4 | 9.2  | 1985Q4 | 5.5           |
| 1972Q4 | 7.7  | 1986Q4 | 3.4           |
| 1973Q4 | 10.3 | 1987Q4 | 4.1           |
| 1974Q4 | 18.2 | 1988Q4 | 4.0) FSBR     |
| 1975Q4 | 25.3 | 1989Q2 | 4.1) forecast |

(iii) For current account see 5.

Line to take

- (i) Little sign of widespread capacity problems. Capacity problems much more serious in 1973, mainly because of speed of recovery prompted by imprudent fiscal expansion in 1972 Budget. (Manufacturing output rose by 14½ per cent between 1972Q1 and 1973Q1.) Skilled labour and capacity shortages were widespread throughout industry. There were also serious shortages of raw materials and components, which spilled over into balance of payments. No similar constraints now, or in prospect.
- (ii) Expected investment growth in 1988 (11½ per cent for manufacturing, 9 per cent for non-oil business investment) should ensure adequate capacity.
- (iii) Inflation started from a high level at end 1972 and picked up sharply through 1973. Inflation in present sustained recovery (not just one year, as in 1973) remained low. No significant pick up expected over next eighteen months.
- (iv) Current account - see 5.

5.51 pm

**Sir Ian Gilmour** (Chesham and Amersham): My right hon. Friend the Chief Secretary of the Treasury made an able defence of the Budget.

Everyone on the Conservative Benches has every reason to be grateful to my right hon. Friend the Chancellor because I doubt that any party has ever gone into a general election with every economic indicator bearing such favourable interpretations. As a result all our majorities happily benefited from the Chancellor's exploits. Furthermore, as my right hon. Friend pointed out yesterday, last year's Budget was not an electoral bonanza that had to be reversed—such prophecies have proved false—and he has been able to repeat the mixture this year.

My right hon. Friend deserves considerable congratulations for the growth rate of 4.5 per cent. and the consequent fall in unemployment. In contrast to the unemployment rate of 18.1 per cent. that is found in the constituency of the right hon. Member for Govan (Mr. Millan), the unemployment rate in my constituency is 2.1 per cent. By any standard that percentage represents full employment. Furthermore, the growth has been achieved without a sharp increase in inflation.

Many of the Chancellor's tax reforms will be beneficial. However, I am bound to say that I believe that it is more than a little insensitive to hand out quite so much money to the rich—also to the not-so-rich as my right hon. Friend the Chief Secretary pointed out—especially at a time when next month, quite a lot of people will find their social benefits markedly reduced. I find the refusal to uprate child benefit even more unforgivable than I found it last autumn. I still find it regrettable that, despite my right hon. Friend's reassuring remarks this afternoon, the Chancellor did not provide more money for the Health Service, which plainly needs that money. The Government are taking some unwarrantable social risks. Nevertheless, undoubtedly my right hon. Friend the Chancellor has been an extremely successful Chancellor. I do not wish to concentrate on his taxation proposals, but on something that he said yesterday afternoon:

"The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise."—[*Official Report*, 15 March 1988; Vol. 129, column 995.]

The claim of transformation is a high one and if it is justified we can all stop worrying about the British economy and start worrying about something else—a number of other candidates spring to mind. My right hon. Friend's claim deserves examination. If one looks back just a few years it may have some substance, but I am sure my right hon. Friend would agree that it cannot be substantiated if we go back and consider the entire period since 1979. During that period Britain's average growth rate—even including the boost from oil—has been 1.8 per cent. and that is lower than any other eight year period prior to 1979.

There has, of course, been an extremely promising increase in productivity in manufacturing, but that is not of great use unless it leads to an improvement in our ability to compete at home and abroad and therefore to an increase in production. Unfortunately, that has not yet happened. Some good figures were published yesterday,

but production in manufactured goods is still not much higher than it was in 1979 while imports of manufactured goods have nearly doubled.

The claim of transformation must relate to a shorter and more recent period. Certainly in the period 1985-87 the growth rate has been much better—it has been a highly respectable rate of nearly 4 per cent. If the Government's claim is true, that rate of growth or something like it will be sustained and this latest recovery will be different from all previous recoveries when the go ended with a stop.

The last time that we had a two-year growth period as large as the 1985-87 growth period was in 1971-73 during the Government led by my right hon. Friend the Member for Bexley and Old Sidcup (Mr. Heath) of which I had the honour to be a member. The conduct of economic policy during that period has rightly or wrongly come in for a great deal of criticism. Unemployment was reduced to a mere half a million—2.3 per cent.—but the hostile view, which has been widely expressed, is that real jobs were not created at that time and that the profligate use of monetary and fiscal policy first caused an inflationary crisis and then led to an extremely large increase in unemployment.

It may be instructive therefore to compare 1985-87 with 1971-73. Certainly, those who oppose, in retrospect, the policies adopted in 1971-73 will want to make absolutely sure that we have not just got another consumption boom on our hands that is doomed, in common with all the others, to end with adverse consequences for inflation and employment. The policy stance in 1985-87, in common with 1971-73, has been strongly expansionary. Money supply—I do not know whether one is allowed to use such a phrase any more—

**Mr. Giles Radice** (Durham, North): It is out of fashion.

**Sir Ian Gilmour**: It certainly is. Money supply has risen by nearly 50 per cent. in the past two years compared with just over 61 per cent. in the earlier period. If we measure the real money supply, correcting the figures for inflation, it turns out that there is no significant difference between the two periods.

I have mentioned money supply not because it has any significant connection with inflation—luckily that notion has been mercifully discredited—but because it is the counterpart of a huge rise in personal borrowing and a sharp fall in personal savings.

There seems to me no doubt that fiscal policy, if properly measured, has also been expansionary and in itself I greatly welcome that. The movement of the public sector borrowing requirement provides no guide because—as we know—it includes asset sales and the handing out of capital gains which happens nearly every time although not in the last one. The PSBR works in the opposite direction to what it is said to do in the public accounts; it adds to, not subtracts from, personal consumption.

Quite apart from the Government's privatisation programme, the fiscal stance, properly measured, has been expansionary. Even the so-called financial deficit is an ambiguous guide to the stance of fiscal policy, because that also seems to have been reduced by sales of existing assets. So far as I can see, the figure for the financial deficit is struck after deducting sales of houses by local councils and new towns, and apparently it was worth £4 billion in

[Sir Ian Gilmour]

1987-88. Those sales by a convention seem to be treated in the accounts as negative public expenditure, although they do not reduce demand at all.

The fact that fiscal policy has been expansionary is not belied by the fact that revenue is so buoyant. No more than in Rab Butler's notorious first Budget in 1955 is buoyancy to be taken as evidence of fiscal prudence. Revenue receipts have been buoyant because loan-financed expenditure has risen and personal savings have fallen. The buoyancy therefore denotes the effect of the economy on the Budget rather than the effect of the Budget on the economy.

④ The structure of demand was not exactly the same in 1985-87 as in the earlier period, but it was broadly similar. While investment and Government consumption rose less in 1985-87 than in 1971-73, the 5.5 per cent. growth in personal consumption was almost exactly the same, and accounted for a larger proportion of the total expansion — two thirds in 1985-87 compared with one half in 1971-73. The recent rise in personal consumption has been far larger than in any of the go periods. The expansionary stance of fiscal policy is confirmed by the Chancellor's expectation that consumption will rise another 4 per cent. this year, making gross consumption over the period 1985-88 the largest on record.

The conclusion, therefore, must be that the expansions of 1971-73 and 1985-87 are broadly similar. I do not know whether the conclusion is more palatable to my right hon. Friend the Chancellor or my right hon. Friend the Member for Old Bexley and Sidcup. My right hon. Friend the Member for Old Bexley and Sidcup had the bad luck to be hit by a fourfold increase in oil prices but, thank goodness, that will not happen today.

⑤ The recent excessive growth in consumption has generated an inevitable deterioration in the balance of payments from a surplus of £3.2 billion in 1985 to a deficit of £1.7 billion in 1987, which, according to the Chancellor's figures, will this year rise to £4 billion.

A few years ago, the Government kept saying that they were laying the foundations for a greatly improved economy and of an economic policy that was quite different from the failures of the past. It seemed to me that the foundation-laying was going on for a very long time, and I remember urging them to get on with the building. They finally finished the foundations and erected the building. Unfortunately, they did not erect the building on the foundations that they had spent such a long time laying. They erected their building miles away from the foundations on the same old boggy marsh that they had denounced previous Administrations for floundering in since 1945. The edifice that they have erected is the same old rickety structure as the others — the classic, authentic, British consumption-led economic boom, with imports rising far faster than exports.

Whatever the potential merits may be of the Government's supply side measures — the trade union legislation has been beneficial in that regard — nothing has yet happened to the overall performance of the economy that cannot be accounted for by having had an unusually large and prolonged dose of old fashioned stop-go. The restrictive monetary and fiscal measures of 1979 caused an unprecedentedly deep recession — that was the stop — and expansionary, fiscal and monetary policy — in a word, reflation — has caused the subsequent recovery.

That was go. Thankfully, that has lasted longer than the other goes, because it started from a uniquely low level, because of North sea oil, because of the Government's trade union legislation and because of the weakness of the Opposition, which has enabled the Government to run the economy at a far higher level of unemployment than would have been possible in the past.

⑥ Demand is being driven up towards the limits of our capacity to produce, which has dangers for inflation and the balance of payments. That has happened many times before, but this time it is happening long before we are anywhere near having re-established full employment.

My right hon. Friend the Chancellor may be right in maintaining that he can get through the present year and beyond. Treasury forecasts have been so strikingly accurate over recent years that it is a brave man who questions them. I only hope that my right hon. Friend's optimism is justified.

But no strategy for growth will be sustained for long unless it ensures that exports rise sufficiently to pay for imports. At present, they are certainly not doing so. We are undergoing a consumption boom, which, however popular it may be with those who have benefited from it — fortunately many people have benefited from it — it does nothing whatever to resolve Britain's strategic problem in the medium or short term.

I fear that the British economy has not been transformed. I therefore hope that my right hon. Friend the Chancellor will devote his formidable powers and energies to effecting the genuine transformation that is still so badly needed.

6.4 pm

Mr. A. J. Beith (Berwick-upon-Tweed): The right hon. and learned Member for Monklands, East (Mr. Smith) said that there was something stirring in the Tory undergrowth. How elegantly it stirred in the remarks of the right hon. Member for Chesham and Amersham (Sir. I. Gilmour), and with what passion and determination it is possible to mount a critique of the Budget when it is done in the face of the recent rewriting of history. The experience of history being written prompts literary endeavour to quite a striking degree. One wonders how much more will stir in the undergrowth as a result of the Budget. So far, few heads have appeared over the top of the grass.

What strikes one about this budget is its sheer, bare-faced injustice. The Chancellor has gone out of his way to make not only major changes in the taxation structure which will benefit one section of society, but to add to them all the other measures he can find. He has gone far beyond what anyone expected. Most of the press commentators and some Conservative Members were surprised — some have been pleased, but others have not — by the extent to which he was prepared to go in tilting the balance of the Budget.

The impression given is of a Budget that is imprudent, not fiscally but in relation to the overall economic position and the serious problems with which we are faced, such as the balance of payments and the pressures towards inflation, which are likely to become worse. The balance of payments problem is bound to become worse for the reasons that were given by the right hon. Member for Chesham and Amersham. More money is available

# BUDGET DEBATE WIND UP

p51  
 LOSIS FROM THE BUDGET  
 WHEN 3/4 OF TAX ROLL IN  
 COMING 4K US ACCOUNTS  
 FOR BY THE REDUCTION IN THE  
 BASIC RATE AND INC  
 ALLOWANCE

BOTH MY RT HON FRIEND THE MEMBER FOR WORTHING AND MY  
 RT HON FRIEND THE MEMBER FOR WOKING REFERRED TO THE  
 APPALLING AND UNPRECEDENTED SCENES IN THE CHAMBER DURING  
 THE BUDGET STATEMENT.

DURING ONE OF THOSE INTERRUPTIONS, I RECALLED THE MOTTO  
 UTTERED ON ONE MEMORABLE AND TURBULENT OCCASION IN THE  
 HOUSE OF COMMONS BY OUR FORMER COLLEAGUE,  
 ADMIRAL MORGAN-GILES.

PRO BONO PUBLICO: NO BLOODY PANIC<sup>62</sup>.

PRINCIPLE ON WHICH I HAVE BASED POLICY  
 THROUGHOUT MY PERIOD AS CHANCELLOR,  
 AND I STRONGLY COMMENT IT.

THE HOUSE OF COMMONS WILL DELIVER ITS VERDICT ON THE BUDGET IN THE DIVISION LOBBIES TONIGHT.

BUT THE BUDGET HAS ALREADY ATTRACTED UNPRECEDENTED COMMENT FROM AROUND THE WORLD, WHERE IT HAS BEEN SEEN AS REINFORCING THE HIGH STANDING WHICH BRITAIN, UNDER THE LEADERSHIP OF MY RT HON FRIEND THE PRIME MINISTER, NOW HAS IN THE WESTERN WORLD.

A FAR CRY FROM THE TONES OF SORROW AND PITY WHICH GREETED THE LABOUR GOVERNMENT'S DESPERATE ATTEMPTS TO SHORE UP A DECLINING ECONOMY.

IN JAPAN, FOR EXAMPLE, ONE OF THE MAIN PAPERS GIVES PROMINENCE TO "THE THATCHER MIRACLE", ANOTHER TO "A BUDGET TOO BOLD FOR THE JAPANESE GOVERNMENT", WHILE THE JAPANESE EQUIVALENT OF THE FINANCIAL TIMES REFERS TO THE CHANGING IMAGE OF BRITAIN AS NOW BEING A COUNTRY OF INDIVIDUAL ENTERPRISE.

IN THE US, <sup>200</sup> THE WALL STREET JOURNAL IN AN EDITORIAL OBSERVED THAT "BRITAIN HAS RETURNED TO THE LEAD IN THE GLOBAL SWING TOWARDS FREE ECONOMIES AND PRO-GROWTH POLICIES BASED ON INDIVIDUAL INITIATIVE".

IN FRANCE, LIBÉRATION CALLED IT "THE MOST FUNDAMENTAL AND MOST DARING BUDGET SINCE MARGARET THATCHER CAME TO POWER", SET AGAINST THE BACKGROUND OF "THE EXCEPTIONAL DYNAMISM OF THE BRITISH ECONOMY".

AND IN GERMANY, HANDELSBLATT DECLARED THAT "THE ONCE SICK MAN OF EUROPE HAS BECOME THE MOST DYNAMIC ECONOMIC NATION IN EUROPE".

SO MUCH FOR THE VIEW EXPRESSED BY THE HON MEMBER FOR DAGENHAM ABOUT THE ECONOMY AND THE BUDGET <sup>299</sup> ALIKE.

300

BUT IMPORTANT THOUGH THIS BUDGET IS, IT IS EVEN MORE IMPORTANT THAT IT IS NOT SEEN IN ISOLATION.

FOR THIS BUDGET REPRESENTS A CONTINUATION OF THE POLICIES WE HAVE PURSUED CONSISTENTLY FOR NEARLY NINE YEARS - AND WILL CONTINUE TO PURSUE.

A CONTINUATION OF THE STEPS WE HAVE TAKEN IN NINE PREVIOUS BUDGETS; AND OF THE MAJOR REFORMS WE HAVE INTRODUCED IN OTHER FIELDS, ALL DESIGNED TO ENCOURAGE AND REWARD ENTERPRISE AND SO TO LIBERATE THE ENERGIES OF THE BRITISH PEOPLE.

379

THE TAX CHANGES IN THIS BUDGET CONSOLIDATE BRITAIN'S MOVE FROM A HIGH TAX COUNTRY TO A LOW TAX COUNTRY, AT ALL LEVELS.

SINCE 1979 THE TOP RATE OF INCOME TAX HAS BEEN CUT FROM 83 PER CENT TO 40 PER CENT.

THE BASIC RATE HAS BEEN CUT FROM 33 PER CENT TO 25 PER CENT.

THE CORPORATION TAX RATE HAS BEEN CUT FROM 52 PER CENT TO 35 PER CENT.

THE SMALL COMPANIES' RATE HAS BEEN CUT FROM 42 PER CENT TO 25 PER CENT.

AND THE 15 PER CENT ADDITIONAL TAX ON SAVINGS INCOME HAS BEEN ABOLISHED <sup>478</sup>ALTOGETHER.

BUT THESE DRAMATIC CHANGES NEED TO BE SEEN NOT AS A REWARD, BUT AS A CHALLENGE.

A CHALLENGE TO BRITISH BUSINESSMEN.

THE REDUCTIONS IN TAX RATES, COUPLED WITH THE REFORM OF TRADE UNION LAW, PROVIDE AN UNPARALLELED OPPORTUNITY FOR BRITISH FIRMS TO COMPETE WITH THE BEST IN THE WORLD, AND TO SUCCEED.

THE NATION NOW LOOKS TO THEM NOT MERELY TO DO BETTER THAN THEY HAVE EVER DONE BEFORE, BUT TO OUTPACE THOSE OVERSEAS - FOR THERE IS STILL A GREAT DEAL TO BE DONE TO MAKE GOOD THE GROUND LOST IN THE 'SIXTIES AND THE 'SEVENTIES.

AND THE BRITISH PEOPLE LOOK TO THEM, TOO, TO PLAY THEIR FULL PART IN THE SOCIAL FIELD - IN THE INNER CITIES AND IN OTHER AREAS WHERE <sup>600</sup> THEY CAN OFTEN BE FAR MORE EFFECTIVE THAN BUREAUCRATIC AGENCIES.

I AM CONFIDENT THAT BRITISH BUSINESS WILL LIVE UP TO THIS

CHALLENGE.

I AM CONFIDENT THAT,

(JUST AS IT RESPONDED SO WELL TO THE CHALLENGE OF ADVERSITY DURING A WORLD RECESSION, SO IT WILL RESPOND <sup>646</sup> ~~FULLY~~ TO THE CHALLENGE OF OPPORTUNITY.

FOR IT IS ALREADY CLEAR THAT THE POLICIES WE HAVE BEEN PURSUING HAVE BROUGHT ABOUT A PROFOUND CULTURAL CHANGE IN BRITAIN.

THAT, INDEED, IS WHAT IT IS ALL ABOUT.

FOR THAT CULTURAL CHANGE IS THE ONLY ROUTE TO THE ECONOMIC SUCCESS WE ALL WISH TO SEE, AND WHICH IS NO LONGER PROMISE BUT REALITY.

NO LONGER DO PEOPLE ACCEPT THAT ECONOMIC POLICY SHOULD BE ABOUT REGULATING EVERYONE'S LIVES, AND IMPOSING PENAL TAX RATES IN THE ILLUSION THAT THAT WILL BENEFIT THOSE ON LOWER INCOMES.

INSTEAD, IT IS NOW WIDELY RECOGNISED THAT YOU CAN'T MAKE THE POOR RICH BY MAKING THE RICH POOR; THAT THERE ARE ENORMOUS BENEFITS IN GETTING THE STATE OFF PEOPLE'S BACKS, IN TRANSFERRING DECISION-MAKING FROM THE STATE TO THE PEOPLE.

AND IT IS NOW ABUNDANTLY CLEAR THAT GIVING GREATER FREEDOM AND GREATER INCENTIVES HAS REMOVED THE SHACKLES WHICH HELD BACK BRITAIN FOR SO MANY YEARS AND HAS LIBERATED A GREAT SURGE IN ENTERPRISE.

THIS COUNTRY IS EXPERIENCING AN ECONOMIC MIRACLE  
COMPARABLE IN SIGNIFICANCE TO THAT PREVIOUSLY ENJOYED BY  
WEST GERMANY AND ~~CONTINUOUSLY~~<sup>STILL</sup> BY JAPAN; WHERE THE  
SOCIALIST PARTY HAS BEEN IN UNINTERRUPTED OPPOSITION FOR  
THE PAST 33 YEARS - ARGUABLY THE MOST IMPORTANT SINGLE  
INGREDIENT OF ECONOMIC SUCCESS.<sup>847</sup>

IN HIS SPEECH IN THIS DEBATE LAST WEDNESDAY, THE  
RT HON MEMBER FOR MONKLANDS EAST WAS REDUCED TO  
REFERRING DISPARAGINGLY TO A "SHORT-TERM BOOM".

AND THE RT HON GENTLEMAN THE LEADER OF THE OPPOSITION IN  
AN ARTICLE IN THE SUN NEWSPAPER, CALLED IT A "BOOMLET".  
SEVEN YEARS OF STEADY GROWTH AT AN AVERAGE OF 3 PER CENT  
A YEAR, AND THEY CALL IT A "BOOMLET".

THE LAST LABOUR GOVERNMENT NEVER ONCE ACHIEVED GROWTH OF  
3 PER CENT. ~~NOT FOR A SINGLE YEAR~~

~~NOT EVEN IN THEIR BEST SINGLE YEAR~~

NOT FOR A SINGLE YEAR.

AND, WHILE WE ARE DETERMINED TO GET INFLATION DOWN FURTHER, WHAT WE ARE NOW TALKING ABOUT IS GETTING IT DOWN FROM SOMETHING BETWEEN 3 AND 4 PER CENT.

CONTRAST THAT WITH A LABOUR GOVERNMENT UNDER WHICH THE LOWEST RATE OF INFLATION EVER ACHIEVED WAS OVER 8 PER CENT AND THE AVERAGE OVER 15 PER CENT.

AND WHEN THE PARTY OPPOSITE CLAIM THIS BUDGET IS UNFAIR, I SAY THIS TO THEM.

YOU CAN ARGUE TILL THE COWS COME HOME WHETHER IT IS FAIR TO TAKE 60 PER CENT OR 50 PER CENT OR 40 PER CENT OF A MAN'S SALARY AWAY FROM HIM IN TAXATION.

BUT WHAT IS BEYOND DISPUTE IS THE CROWNING UNFAIRNESS OF 15 PER CENT INFLATION.

THE BENEFITS OF SOUND AND CONSISTENT POLICIES ARE NOW BEING FELT THROUGHOUT THE ECONOMY - IN EVERY REGION AND COUNTRY, AND IN EVERY INDUSTRY.

UNEMPLOYMENT HAS FALLEN BY HALF A MILLION OVER THE LAST YEAR, FASTER THAN IN ANY OTHER MAJOR COUNTRY.

AND OUR UNEMPLOYMENT RATE IS NOW LOWER THAN THAT IN ANY OTHER MAJOR EUROPEAN COUNTRY, APART FROM GERMANY.

THIS SUCCESS HAS BEEN ACHIEVED BY REJECTING THE IDEA THAT THE STATE IS THE ENGINE OF GROWTH, AND THAT THE ONLY WAY TO STIMULATE THE ECONOMY IS BY RUNNING EVER LARGER FISCAL DEFICITS.

WE SAW WHAT THAT LED TO IN THE 70s: INFLATION SPIRALLING OUT OF CONTROL, THE CURRENCY CRASHING, UNTIL THERE WAS NO CHOICE BUT TO SLAM THE ENGINES INTO REVERSE, WITH DEEP CUTS IN PUBLIC EXPENDITURE AND SAVAGE TAX INCREASES.

WHAT WE HAVE DONE IS TO ADOPT A POLICY OF STEADILY REDUCING GOVERNMENT BORROWING.

AND WE HAVE NOW REACHED THE LOGICAL CONCLUSION, A BALANCED BUDGET.

OUR LEGACY TO FUTURE GENERATIONS WILL NOT BE AN EVER INCREASING BURDEN OF DEBT INTEREST, BUT ONE WHICH FALLS AS A PROPORTION OF NATIONAL INCOME.

AND THIS IS ALREADY ALLOWING US TO SPEND MORE ON PRIORITY SERVICES - INCLUDING HEALTH - WHILE KEEPING TO OUR OVERALL OBJECTIVES OF REDUCING PUBLIC EXPENDITURE AS A SHARE OF TOTAL NATIONAL INCOME.

WHAT HAS BROUGHT US TO THIS POSITION, IS THE VIRTUOUS  
CIRCLE OF LOWER BORROWING AND LOWER TAX RATES.

LOWER BORROWING GETS THE STATE OUT OF THE WAY.

LOWER TAX RATES GIVE EVERY INCENTIVE FOR THE PRIVATE  
SECTOR TO EXPAND.

AND THAT IN TURN GENERATES THE HIGHER REVENUES WHICH HAVE  
AGAIN ALLOWED US TO ACHIEVE THE HAT-TRICK OF LOWER TAX  
RATES, HIGHER PUBLIC SPENDING AND LOWER BORROWING -  
INDEED THE ELIMINATION OF BORROWING ALTOGETHER.

IT IS A NONSENSE FOR THE PARTY OPPOSITE TO MAKE FANCIFUL  
SUGGESTIONS ABOUT WHAT THEY WOULD HAVE DONE WITH THE  
REVENUES IF THEY HAD BEEN IN GOVERNMENT.

FOR THE PLAIN FACT IS THAT HAD THEY BEEN IN GOVERNMENT  
THE REVENUES WOULD NOT HAVE BEEN THERE IN THE FIRST  
PLACE.

THEY WEREN'T IN THE 1960s.

THEY WEREN'T IN THE 1970s.

AND THEY WOULDN'T BE NOW, EITHER.

A CRUCIAL PART OF ACHIEVING THIS VIRTUOUS CIRCLE IS THE PURSUIT OF TAX REFORMS THAT REWARD AND ENCOURAGE ENTERPRISE, SOMETHING COMPLETELY ALIEN TO LABOUR'S PHILOSOPHY.

WE DON'T HAVE TO THEORISE ABOUT THE BENEFITS OF TAX REFORM.

THEY ARE VIVIDLY ILLUSTRATED BY THE REFORMS TO CORPORATION TAX WHICH I INTRODUCED IN 1984.

THE PRINCIPLES OF LOWERING TAX RATES AND OF REDUCING OR ABOLISHING UNWARRANTED TAX BREAKS HAVE BEEN APPLIED CONSISTENTLY SINCE 1979.

THEY HAVE SERVED THE ECONOMY WELL.

THE TAX CHANGES IN THIS BUDGET BUILD ON MANY OF THE REFORMS I AND MY PREDECESSOR INITIATED IN EARLIER BUDGETS.

ON CAPITAL GAINS TAX, THE SYSTEM WE INHERITED BIT HARSHLY ON INFLATIONARY GAINS MADE IN THE 1970s.

MY PREDECESSOR WAS ABLE TO MAKE A START ON RECTIFYING THIS IN HIS BUDGET IN 1982.

I EXTENDED THE INDEXATION PROVISIONS IN 1985.

AND IN THIS YEAR'S BUDGET, I WAS ABLE TO ANNOUNCE THE LOGICAL CONCLUSION, THAT GAINS MADE BEFORE 1982 SHOULD BE EXEMPT FROM TAX ALTOGETHER.

THIS WILL BENEFIT THE ECONOMY BY UNLOCKING ASSETS BOUGHT BEFORE 1982, WHICH PEOPLE HAVE BEEN SITTING ON SIMPLY TO AVOID A PENAL TAX CHARGE ON PURELY PAPER GAINS.

BUT AT THE SAME TIME, THE ALIGNMENT OF THE RATES OF TAX ON INCOME AND CAPITAL GAINS, WHICH WAS MADE POSSIBLE BY THE SIMPLIFICATION OF THE INCOME TAX RATES, <sup>REDUCES</sup> ~~REMOVES~~ BOTH THE DISTORTION OF INVESTMENT DECISIONS, AND THE SCOPE FOR HIGHER RATE TAX PAYERS IN PARTICULAR TO CONVERT INCOME INTO GAINS TO MINIMISE THEIR TAX LIABILITY.

UNDERLYING MANY OF THE CHANGES WE HAVE MADE SINCE 1979 HAS BEEN THE SPECIAL NEED TO ENCOURAGE SMALL BUSINESSES, WHERE MUCH OF THE DYNAMISM OF THE ECONOMY SPRINGS FROM. THE MOST IMPORTANT STEP, OF COURSE, HAS BEEN TO CUT THE SMALL COMPANIES' CORPORATION TAX RATE FROM 42 PER CENT IN 1978-79 TO 25 PER CENT NOW - A CUT OF TWO-FIFTHS.

IN THIS BUDGET, IT WAS RIGHT TO CONCENTRATE ON PERSONAL TAXATION - AND ON INCOME TAX IN PARTICULAR.

WE HAD MADE SOME SUBSTANTIAL PROGRESS IN PREVIOUS BUDGETS, BUT IT WAS CLEAR THAT THIS WAS AN AREA RIPE FOR REFORM.

I BELIEVE THAT THE WHOLE HOUSE, AND INDEED THE WHOLE COUNTRY, HAS WELCOMED THE ~~HISTORIC~~ REFORM I ANNOUNCED IN THE TAX TREATMENT OF MARRIED WOMEN.

THE EXISTING SYSTEM, WITH THE WIFE'S INCOME TREATED FOR TAX PURPOSES AS BELONGING TO HER HUSBAND, HAD LASTED 180 YEARS.

IT HAD BECOME WHOLLY INDEFENSIBLE.

I DECIDED THAT THE TIME HAD COME TO ACT.

MY PROPOSALS WILL FOR THE FIRST TIME ENSURE COMPLETE PRIVACY AND INDEPENDENCE FOR MARRIED WOMEN IN THEIR TAX AFFAIRS.

OF THOSE MARRIED WOMEN WHO WILL GAIN FINANCIALLY FROM THE INTRODUCTION OF INDEPENDENT TAXATION, (THE MAJORITY OF WHOM, INCIDENTALLY, WILL BE ELDERLY,) NEARLY THREE-QUARTERS HAVE INCOMES OF LESS THAN <sup>4</sup>~~25~~,000 A YEAR.

AT THE SAME TIME, IT WAS CLEARLY RIGHT TO ELIMINATE THE  
SO CALLED TAX PENALTIES ON MARRIAGE - THE QUIRKS IN THE  
EXISTING SYSTEM WHICH MEAN THAT SOME UNMARRIED COUPLES  
PAY LESS TAX THAN A MARRIED COUPLE IN THE SAME  
CIRCUMSTANCES.

IT IS, INCIDENTALLY, THE HEIGHT OF EFFRONTERY FOR  
OPPOSITION SPOKESMEN TO COMPLAIN THAT THOSE BELOW THE TAX  
THRESHOLD CAN'T BENEFIT FROM A BUDGET THAT REDUCES INCOME  
TAX.

DO THEY THINK WE SHOULD HAVE REDUCED THRESHOLDS, IN REAL  
TERMS, INSTEAD OF RAISING THEM?

THAT'S WHAT THEY DID WHEN THEY WERE IN OFFICE, WITH THE  
SINGLE ALLOWANCE FALLING BY MORE THAN 20 PER CENT IN REAL  
TERMS.

~~NOT MORALLY UPRIGHT, BUT~~  
~~HEIGHT OF EFFRONTERY, TOO, FOR HM DUNFORTH~~  
~~BASE TO CLAIM THAT 95% OF POPULATION~~  
~~WON'T BENEFIT FROM BUDGET~~  
~~3% OF TAXPAYER INCOME IS TAX REMISSIONS~~  
~~IN ANY GIVEN YR IS ACCOUNTED~~  
~~FOR BY REDUCTION IN BASIC RATES~~  
~~AND INCREASES IN THRESHOLDS~~

WE HAVE NOW DONE SOMETHING WHICH HAS NEVER BEEN DONE BEFORE: WE HAVE CUT INCOME TAX IN SEVEN SUCCESSIVE BUDGETS - WHICH, UNDER THIS GOVERNMENT, MEANS SEVEN SUCCESSIVE YEARS.

COMPARE BUDGET DAY NOW WITH THE SENSE OF APPREHENSION AND DREAD WITH WHICH, UNDER THE LAST GOVERNMENT, THE BRITISH PEOPLE WAITED TO FIND OUT WHAT FATE WOULD BEFALL THEM EACH MARCH - AND JULY AND NOVEMBER.

THIS YEAR, WE WERE ABLE TO ACHIEVE OUR DECLARED GOAL OF  
REDUCING THE BASIC RATE TO 25 PER CENT.

FROM A THIRD UNDER THE LAST LABOUR GOVERNMENT, TO A  
QUARTER NOW.

AND I MADE A PLEDGE THAT WE WOULD REDUCE IT FURTHER, TO  
20 PER CENT, AS SOON AS IT IS PRUDENT AND SENSIBLE TO DO  
SO.

THE CUT IN THE BASIC RATE TOGETHER WITH THE DOUBLE INDEXATION OF PERSONAL ALLOWANCES, ACCOUNTED FOR THREE-QUARTERS OF THE COST OF THE INCOME TAX PACKAGE IN THE BUDGET IN THE COMING YEAR. SO MUCH FOR DUNFORTH LINE 6.

(952) WON'T BENEFIT: Poffy cork

BUT IT WAS CLEARLY RIGHT TO REDUCE THE HIGHER RATES TOO.

ALL THE EXPERIENCE, IN THIS COUNTRY AND OVERSEAS, HAS DEMONSTRATED THE FUTILITY OF LEVYING HIGH TAX RATES IN SOME MISGUIDED SEARCH FOR SOCIAL JUSTICE.

IT IS CLEAR THAT ALL THAT DOES IS ENCOURAGE DISTORTIONS AND DISCOURAGE ENTERPRISE.

WITH HIGH TAX RATES, FAR TOO MUCH WASTED EFFORT IS PUT IN TO FINDING EVER MORE COMPLICATED WAYS OF AVOIDING TAX - THOUGH SOME SIMPLY GIVE UP AND DEPART FOR MORE HOSPITABLE CLIMATES OVERSEAS.

AND AS THE LOOPHOLES EMERGE, MORE CONVOLUTED LEGISLATION IS NEEDED TO BLOCK THEM WITH THE RESULT THAT THE TAX SYSTEM GETS EVER MORE COMPLICATED.

NO-ONE BENEFITS EXCEPT TAX ACCOUNTANTS AND TAX LAWYERS.

IT IS FAR BETTER BOTH TO CUT HIGHER RATES OF TAX AND TO SWEEP AWAY AS MANY AS POSSIBLE OF THE SHELTERS AND TAX BREAKS WHICH WERE AN INESCAPABLE PART OF A HIGH TAX REGIME.

AND THAT IS WHAT I HAVE DONE IN THIS BUDGET.

THE CHANGES IN THE TAX REGIME FOR FORESTRY, FOR COVENANTS, FOR COMPANY CARS, FOR GOLDEN HANDSHAKES, AND INDEED FOR CAPITAL GAINS, ALL THESE SWEEP AWAY TAX BREAKS WHICH HAVE NO PLACE WHEN TAX RATES ARE LOWER.

OUR EXPERIENCE SINCE 1979 CLEARLY DEMONSTRATES THE RESULTS.

IN 1978-79, THE TOP 5 PER CENT OF TAX PAYERS CONTRIBUTED 24 PER CENT OF INCOME TAX REVENUES.

BY THIS YEAR, FOLLOWING THE CUTS IN TOP RATES IN THE 1979 BUDGET AND THE ABOLITION OF THE INVESTMENT INCOME SURCHARGE IN THE 1984 BUDGET, THE TOP 5 PER CENT CONTRIBUTED 29 PER CENT OF INCOME TAX REVENUES.

IT IS FOR THESE REASONS THAT GOVERNMENTS ALL AROUND THE  
WORLD ARE RECOGNISING THE VIRTUES OF CUTTING INCOME TAX  
RATES.

EVEN THE LABOUR GOVERNMENTS IN AUSTRALIA AND NEW ZEALAND  
HAVE EMBARKED ON THIS ROAD, PARTICULARLY NEW ZEALAND. 60/48/83

IT IS ONLY THE LABOUR PARTY HERE WHICH, OSTRICH-LIKE,  
KEEPS ITS HEAD IN THE SAND AND <sup>CLAIMS</sup> ~~PRETENDS~~ THAT HIGH TAX  
RATES ARE A GOOD THING.

INDEED, THEY COMPLETELY FAIL TO UNDERSTAND THE BASIC POINT.

IN THEIR ELECTION MANIFESTO LAST YEAR, THEY SAID, IN A SECTION IRONICALLY HEADED 'PAYING FOR THE RECOVERY PROGRAMME', 'WE WILL REVERSE THE EXTRA TAX CUTS WHICH THE RICHEST 5 PER CENT HAVE RECEIVED FROM THE TORY GOVERNMENT AND ALLOCATE THAT MONEY INSTEAD TO THE MOST NEEDY'.

THAT'S LABOUR ECONOMICS FOR YOU.

THEY DON'T SEEM TO HAVE REALISED THAT THE TOP 5 PER CENT ARE PAYING MORE, NOT LESS ~~TAX~~ *INCOME TAX*.

*£3* ~~£2.2~~ BILLION MORE, TO BE PRECISE, *IN REAL TERMS*.

BUT OF COURSE IT'S NOT REVENUE RAISING THEY'RE INTERESTED IN AT ALL, STILL LESS FINDING THE MONEY TO PAY HONESTLY FOR PUBLIC SERVICES.

ALL THAT MOTIVATES THEM IS ENVY AND SPITE.

*Although* ~~It~~ IT IS STRIKING THAT BY THE END OF THIS 4-DAY DEBATE, THEY ARE STILL WHOLLY UNABLE TO TELL US WHAT THEY THINK THE TOP RATE OF TAX OUGHT TO BE. *£*

REDUCING INCOME TAX GIVES PEOPLE MORE FREEDOM AND MORE EFFECTIVE CHOICE.

WITH LOWER TAXES, PEOPLE HAVE MORE TO INVEST IN THEIR FAMILIES, IN THEIR ~~HOPE~~<sup>HOMES</sup> AND IN THEIR COMMUNITIES.

THE POLICY OF HIGH TAXES STEMS FROM A BELIEF THAT THE STATE KNOWS BETTER HOW TO SPEND PEOPLE'S MONEY.

WE BELIEVE THAT THE REVERSE IS TRUE: THAT PEOPLE SHOULD BE LEFT SO FAR AS POSSIBLE TO MAKE THEIR OWN CHOICES.

ALL EXPERIENCE, BOTH IN THIS COUNTRY AND OVERSEAS, DEMONSTRATES THE VITAL IMPORTANCE OF THE LINK BETWEEN ECONOMIC AND POLITICAL FREEDOM.

WE ON THIS SIDE OF THE HOUSE UNDERSTAND THAT FUNDAMENTAL TRUTH, AND OVER THE LAST NINE YEARS HAVE DEMONSTRATED OUR ABILITY TO PUT IT INTO PRACTICE.

WE SHALL CONTINUE TO DO SO; AND I COMMEND THIS BUDGET TO THE HOUSE.

## ● CULTURAL CHANGE

WE HAVE CHANGED THE ATTITUDES AND BEHAVIOUR OF THE BRITISH PEOPLE.

FROM THE BITTERNESS AND RECRIMINATION IN INDUSTRIAL RELATIONS IN THE 1970'S, THERE IS NOW A NEW SPIRIT OF COOPERATION AND OF DETERMINATION TO WORK TOGETHER.

FROM AN INNATE TENDENCY TO EXPECT FAILURE IN WORLD MARKETS, THERE IS NOW CONFIDENCE THAT OUR FIRMS WILL BE ABLE TO COMPETE SUCCESSFULLY BOTH AT HOME AND ABROAD.

FROM THE BUREAUCRACY AND SOCIALIST INTERVENTION WHICH USED TO STIFLE THE BEST EFFORTS OF INDUSTRY AND COMMERCE, THERE IS NOW A BUOYANT AND EXPANDING PRIVATE SECTOR WHICH IS STRONGER THAN EVER BEFORE.

### BALANCED BUDGET: HISTORY

A BALANCED BUDGET HAS, AS I SAID IN MY BUDGET STATEMENT,  
A GOOD HISTORICAL PEDIGREE.

YOU DO NOT HAVE TO LOOK BACK TO THE HISTORY OF THE LAST  
CENTURY TO SEE THAT.

THE 1944 EMPLOYMENT POLICY WHITE PAPER, FOR EXAMPLE, SAID

~~SECRET~~

"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."

THIS POINT WAS SOON FORGOTTEN BY THE SO-CALLED KEYNESIANS WHO SEIZED ON THE IDEA THAT GOVERNMENT DEFICITS WERE THE ROUTE TO FASTER GROWTH.

NOTHING COULD HAVE BEEN MORE MISTAKEN, OR MORE DISASTROUS.

## OIL REVENUES

HON MEMBERS OPPOSITE TRY TO PRETEND THAT WE HAVE ONLY BEEN ABLE TO BALANCE THE BUDGET BECAUSE OF WINDFALL REVENUES FROM OIL.

THEY SHOULD LOOK AT THE FIGURES.

IN 1988-89, OIL REVENUES AT SOME £3 BILLION, WILL BE EXACTLY THE SAME SIZE AS THE BUDGET SURPLUS.

SO WE WOULD HAVE A BALANCED BUDGET EVEN WITH NO OIL REVENUES AT ALL.

INDEED, WE NOW RECEIVE MORE TAX - EVEN AFTER THE BUDGET MEASURES - FROM CAPITAL GAINS THAN WE DO FROM OIL.

## STOCK RELIEF

A FURTHER BENEFIT OF THE CORPORATION TAX REFORMS LAY IN THE ABOLITION OF STOCK RELIEF, WHICH HAS ENCOURAGED BRITISH INDUSTRY TO MANAGE ITS STOCKS MUCH MORE EFFICIENTLY, AND THIS IN TURN HAS MEANT THE VIRTUAL ENDING OF THE "STOCK CYCLE", THUS CONTRIBUTING TO THE STEADINESS OF ECONOMIC GROWTH.

### WIFE'S INVESTMENT INCOME

I HAVE BEEN SURPRISED TO SEE THAT SOME OF THOSE WHO WELCOMED THE MOVE TO INDEPENDENCE AND PRIVACY FOR MARRIED WOMEN, NONETHELESS CRITICIZED THIS ASPECT OF THE PROPOSALS.

FOR THAT IS AN ABSOLUTELY INEVITABLE FEATURE OF ALL THE DIFFERENT REFORMS OF TAXATION OF HUSBAND AND WIFE THAT HAVE BEEN PROPOSED OVER THE YEARS.

AND IT HAS IMPORTANT BENEFITS FOR MANY MARRIED WOMEN ON LOW INCOMES, INCLUDING PENSIONERS IN PARTICULAR.

## IHT

ON CAPITAL TAXES, FOR EXAMPLE, THE SYSTEM BEQUEATHED BY LABOUR HAD NO LESS THAN 17 DIFFERENT RATES OF CAPITAL TRANSFER TAX ON LIFETIME GIFTS AND 14 ON TRANSFER AT DEATH.

WE HAD ALREADY TAKEN GREAT STEPS TO SIMPLIFY THESE, AND I HAD IN PARTICULAR ABOLISHED THE TAX ON LIFETIME TRANSFERS ALTOGETHER.

AND IN THIS YEAR'S BUDGET, I HAVE SET A SINGLE FLAT RATE FOR INHERITANCE TAX, AT 40 PER CENT.

## HIGHER RATE YIELDS

EVEN AFTER THE ABOLITION OF THE HIGHER RATES ABOVE 40 PER CENT, THE FORECAST IS THAT THEY WILL CONTRIBUTE 27 PER CENT OF TAX REVENUES IN 1988-89 - WELL ABOVE THE LEVEL IN 1978-79.

AND THIS IS BEFORE ANY ACCOUNT IS TAKEN OF THE EXTRA REVENUE WHICH WILL BE GENERATED FROM THE GREATER INCENTIVE TO ENTERPRISE, AN EFFECT WHICH WILL INCREASINGLY BE FELT.