

PRIME MINISTER

As you know, I have been pressing the Chancellor's office for a written piece on the Budget. This is attached.

I don't suppose that you will wish to go through it all this evening. Most of it can wait for the weekend. But it would be helpful if you could have a look tonight at the section on the specific duties (paragraph 7 and Annex A). There are, so far as I can see, no surprises here.

On the other issues Alan Walters, I know, wants to have a word with you. Perhaps we can arrange a time tomorrow afternoon; or, failing that, giving you the weekend to look at it all, some time early next week.

Agree Annex A - but ask
if Charalls wishes to reconsider
any item in view of decision
at Westminster? (check)
ms

MICHAEL SCHOLAR
18 February 1982

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Alan Walters.

PRIME MINISTER

THE FORTHCOMING BUDGET

We have spoken about progress on the Budget. This minute sets out in more detail how matters now stand.

General

2. The general thrust of the Budget will be to maintain progress on reducing inflation and improving the health of the economy. At this point in time I think it right to place the main emphasis on the need to help businesses, and to tackle unemployment; these being twin and not opposed objectives.

Monetary policy

3. The Red book will again contain an updated version of the Medium Term Financial Strategy. The medium term monetary objectives will be expressed not only, as hitherto, in terms of £M3 but also of the wider aggregates generally, as well as M1, and the narrow aggregates. It will explain how, as has been the case over the past year, we shall take the exchange rate into account in assessing monetary conditions. The precise ranges to be shown for the aggregates are not yet settled, but they will probably be fixed as 8 - 12 per cent for 1982-83, with declining ranges for subsequent years. I shall explain the reasons why £M3 has grown rather faster than we expected and why, as a result, the ranges, though higher than in the last MTFs, do not imply a loosening of monetary conditions.

Fiscal stance

4. As you know, I have it in mind to look for a PSBR for 1982-83 of about £9½ billion. This compares with a figure of £10½ billion for the current year, and one of £9 billion for 1982-83 which I gave in last year's MTFs. For 1983-84 I shall tentatively be looking for a PSBR of around £8½ billion, as compared with the



figure of £6½ billion envisaged for that year in the last MTFS. These figures, though, like the monetary figures, higher than in the old MTFS, still imply a fiscal tightening over the period covered.

5. A PSBR of £9½ billion for 1982-83 will enable me, after making allowance for uncertainties, notably on oil, to announce tax reductions having a PSBR effect in 1982-83 of around £1.5 billion, or perhaps a little higher, and in 1983-84 of around £2 billion. The figures I shall present on 9 March, and emphasise in my speech, will of course be the full year revenue costs, which will be considerably higher.

Detailed proposals

6. The following are the principal elements in the package.

7. On the specific duties I have, as you know, analysed the RPI effects, and envisage something a little less than full revalorisation in line with 12 per cent (past) inflation. Annex A sets out my proposals, and how they compare with full revalorisation. The largest shortfall is on petrol, which seems to me right on industrial and regional grounds. The PSBR cost of the total package - compared to full revalorisation - in 1982-83 is £290 million, and in 1983-84 £200 million.

8. The largest element of direct help to industry will be a cut in the national insurance surcharge of either 1 per cent - costing £450 million in 1982-83 and £670 million in 1983-84 - or 1½ per cent - costing £675 million in 1982-83 and £1,000 million in 1983-84. If we go for the former, it might be coupled with a 2 per cent cut in corporation tax, costing £90 million in 1982-83 and £190 million in 1983-84. I am clear, as you know, that an NIS cut is right, and will be widely welcomed. But decision on its precise scale cannot be taken in isolation from decisions on personal taxes.

9. On personal taxes, we must certainly increase all the income



tax allowances - and higher rate thresholds - by 12 per cent, in accordance with the "Rooker-Wise" legislation. We can in fact go rather further, but I am at present undecided whether to stop at 13 per cent, 15 per cent, or 17 per cent. The additional costs, over Rooker-Wise, are some £100 million a point. I have noted your views on mortgage interest relief ceiling, and will write separately to you about that, and about stamp duty.

10. I also envisage a miscellany of additional measures, largely for industry. Work on them is still proceeding, but the present picture is shown at Annex B. They are individually small, but they do I think add up to an impressive list which should help with the presentation of the Budget as one aimed to help business.

11. I propose also to put forward fresh ideas on unemployment. We have spoken about the concept of a "community work scheme" under which jobs would be provided at Government expense by public authorities and others, paying only the social security benefit rate plus a small premium. The trade unions might not like this, but I think they would find it hard to block it; and it would be consistent with the need to break up the rigidity of the labour market and get people to accept jobs at realistic rates of pay. I propose also to refer, more neutrally, to the possibility of a scheme whereby employers would be paid a premium to take on additional people in the lower-paid range - in its way an extension of the young persons' scheme which you announced to the House last summer.

Summary

12. My present judgement is that we cannot prudently afford to go to the top of the range of possibilities mentioned in paragraphs 8 and 9 above, i.e. 1½ per cent off NIS, 2 per cent off corporation tax, and 17 per cent on personal allowances. The costs of my proposals on the specific duties and the additional measures (paragraphs 7 and 10) amount to some £750 million: for the remaining £750 million (or perhaps a little more) we need to consider the balance to be struck between direct help for business, and raising the personal tax thresholds.



13. My present inclination is to concentrate these marginal reliefs on business. The latest output figures, the need to be seen to act on unemployment, and the political case for aiming to help individuals in the 1983 Budget, all point this way. The last factor is of course relevant to the overall size of the package: if we try to do too much this year, we would face the prospect of publishing in the MTFs the prospect of a negative "fiscal adjustment" for 1983-84.

14. You may wish to discuss this with me. For administrative reasons I need to go firm this weekend on the specific duties, and it would therefore be very helpful if during the course of tomorrow you could confirm that you are content with the proposals in paragraph 7, and Annex A, even though you may wish to leave the other matters till later.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

18 February 1982

APPROXIMATE PRICE EFFECTS (INCLUDING VAT) OF PROPOSED CHARGES

	<u>Proposal</u>	<u>(Full re-valorisation)</u>
Beer	2p/pint	(2p)
Spirits	30p/bottle	(50p)
Wine	10p/bottle	(10p)
Tobacco	5p/pkt 20	(7p)
Petrol	5p/gall	(9p)
Derv	5p/gall	(9p)
VED	£10	(£10)

BUDGET CONFIDENTIAL

ANNEX B

<u>Subject</u>	<u>Revenue cost ranges (£m)</u>	
	1982-83	1983-84
1. Enterprise package	40	75
2. Industrial innovation	20	40
3. Construction package	170	72
4. Energy	213	214
5. Measures on social front	10	16
6. Capital taxes		
CTT	30-45	85-125
CGT	Nil	100
7. North Sea regime	Nil	70
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	483-498	672-712
Of which scored against existing Contingency Reserve (Item 2 and part of Item 4)	33	54
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	450-465	618-658
	=====	=====
Say	460	630
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