

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Sir Douglas Wass  
 Mr Ridley

## THE BUDGET

You are holding a small meeting tomorrow to discuss the general Budget strategy in the light of the revised forecast and the talk with the Prime Minister.

2. I have not attempted any detailed new packaging. The grounds are still too shifting. But I thought a few crude sums might help you to focus on the kind of problems we now seem to face.
3. Assuming an "existing policies" PSBR starting point for next year of some £13½ bn (Mr Evans will be confirming the figure tomorrow), the following PSBR reducing packages for next year could be contemplated.

Treasury BudgetPrime Minister's Budget

PSBR £bn 1981-82

Starting PSBR	13.50
<u>PSBR Reductions</u>	
6½% Rooker-Wise	-1.10
2 x revalorisation specific duties (no VAT blocking)	-1.00
PSBR smoothing	-0.25
'Bonus' from bank levy of £450m (say)	-0.25
Resultant PSBR (say)	10.90

Industry Package

[Combination of measures]	(say) 0.25
Final PSBR	11.15

Starting PSBR	13.50
<u>PSBR Reductions</u>	
6½% Rooker-Wise	-1.10
X VAT on imports	-0.60
PSBR smoothing	-0.25
'Bonus' from bank levy of £450m	-0.25
X 1% NIC(E) from November (say)	-0.35
Resultant PSBR (say)	10.95

Industry Package

[Combination of measures]	(say) 0.25
Final PSBR	11.20

4. This is all very rough and ready, but it suggests that, if you were prepared to publish a PSBR of £11 to 11¼ bn, you could still, on either basis, fit in a small package to industry (or alternatively go for the lower PSBR). But in the "Treasury Budget", persons and

consumers would be pretty severely hit (taking the already decided NIC(E) into account). And in the Prime Minister's Budget, although the further effect on prices would be moderated, the further NIC(E) increase would effectively raise marginal tax rates, and VAT on imports would significantly worsen industry's cash flow.

5. Many variations on either package are possible (eg a larger NIC(E) increase). For PSBR reducing purposes VAT blocking could also be restored (reducing the PSBR by some £0.23 bn but worsening company income by £0.27 bn direct). But to the extent that changes were designed to reduce the PSBR further, they would add to the burden on persons or businesses and add to a Budget whose overall effect is likely to be substantially deflationary. Of the two possibilities above the overall effect of the Prime Minister's budget would, in conventional terms, probably be less deflationary since the effect of double revalorisation of the specific duties is greater than that of VAT on imports (mainly a financial transaction).



J B UNWIN  
11 February 1981