

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Ridley
Mr Cardona

1981 BUDGET

My budget would be simple but radical. It would be based on a conviction that the PSBR is at least twice as big as it should be, and that until that is put right the economy will stagnate. It cannot be right to be collecting £11 billion of the nation's savings through the pension funds and insurance companies, and feeding it straight back, via new gilt issues, into current government spending.

My proposals would be to:

1. Place a temporary surcharge of 5p on all rates of Income Tax.
2. Fully index the personal allowances and thresholds.
3. Index the excise duties.
4. No other changes.

Anticipated consequences

1. An immediate reduction of nearly £5 billion in the PSBR, to some 2.4 per cent of GDP, lower than the MTFS 1981/82 figure.
2. Sharply lower medium and long term interest rate.
3. Hopefully a lower exchange rate.
4. Revival of investment, particularly in the construction industry and the enterprise sector.
5. Generally, a switch of resources from persons to companies, via the capital market.

My replies to taxpayer critics would be

1. You are lucky to have a job that makes you liable to income tax when so many fellow countrymen are unemployed.
2. The plain fact is that, sooner or later, Britain has to tighten its belt. Let us make it sooner, and get the thing over.
3. Remember also, lower interest rates mean cheaper mortgages.

Presentation

I would make the 5p income tax surcharge renewable annually, and indicate that I hoped to bring it down fairly soon. Assuming the shock treatment did bring interest rates and the exchange rate down, it would be reasonable to cut the surcharge to 3p in 1982 and to nil in 1983, with further reduction in prospect if things were humming by that time.

The whole tax is annual anyway?



P J CROPPER
17 December 1980