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78CHANCELLOR

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

BUDGET QUESTIONNAIRE

My answers are as follows:

1. PSBR

Other things being equal, less than the Industry Act Forecast, and as near as possible to the MTF5 figure plus an allowance for the recession. But the composition of the measures taken is also an important consideration.

2. REVENUE

- (a) Sources: I have no inspiration at present. So I nominate,
 1st - less than full valorisation of income tax; more than full valorisation of indirects (with exceptions);
 2nd - Perks, Banks (on a one-off basis?), Mortgage Relief.

(b) & (c) Valorisation levels: For both income and indirects, missing the valorisation threshold (down or up respectively) must clearly be entertained. All income tax thresholds should be treated uniformly. On the indirects I start very sceptical of all the arguments about diminishing returns; but some exceptions will be appropriate. The appropriate quanta are impossible to judge without a clearer view of the demand for revenue.

3. INDUSTRY

Would start from working hypothesis that one must offset a good part of the "Burns-Middleton" (BM) transfer pressure on the tradeables sector. However,

- (1) there is no precise method available. ^(second-best) So a/super-imposed patchwork of responses is required;
- (2) in designing such responses one should, as far as possible,

avoid radical and lasting changes in the tax (or expenditure) system which are not desirable in their own right; and which are irreversible. The particular BM problem could be unwound before long; and in the long-run any reliefs to industry are liable to be "bid away" by employees, as both experience and the Treasury model show.

Since the BM issue boils down in part to the consequences of high interest rates and a high exchange rate (broad macro phenomena with a very uneven impact), there is a case, at the least, for putting some money/effort/resources/PSBR directly into lowering those rates. The effect of ^{this would be} highly discriminatory.

4. TAXES AND SPENDING

(a) Package should, by and large, be limited to small businesses, the BM problem, reViving capital markets and stimulating capital outflows. My candidates, in no particular order: energy prices, fuel oil duty, help for exports, no NIS for Manufacturing, Aunt Agatha, Small Business loan guarantee, tax stimulus to firms to go to the capital market. I know there are severe practical problems about some of this.

(b) Other ideas

I should like, concomitantly, to see such things as the following: abolish the earnings rule; spend a few more £m on pump priming activities such as local Enterprise Trusts; take steps to be able to announce better PE control in '81/2 than now possible (Defence, LAs for a start); ensure real early progress on monetary control, including gilt sales techniques, no Reserve Asset Ratio and a new interest rate régime.



ADAM RIDLEY

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