

J.W Guard - kind reply
with the rev

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CHANCELLOR OF THE EXCHEQUER

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

1981 BUDGET

A late reply to your questionnaire.

1. PSBR

It would be easy to defend a 1981-82 PSBR that was as close as possible to the MTFS figure adjusted to take account of recession not anticipated when the MTFS was published.

2. Extra revenue

I would rank sources of extra revenue thus:

- (1) VAT on imports
- (2) Specific duties increased by more than required for revalorisation, provided the "impact effect" on the RPI remains less than about 2%. Like Mr Ridley, I am sceptical of the arguments about diminishing returns.
- (3) Less than revalorisation of income tax allowances and thresholds. I do not think there is any political constraint on how little these are revalorised: the only constraint is one of manpower, imposed by Lord Soames.

3. Burns-Middleton Analysis

It is difficult to disagree with the Minister of State, Lords, analysis of this: it is difficult to introduce discrimination into the tax sphere.

Also I am generally sceptical of attempts to counter what is happening "naturally" in the economy.

4. Tax reductions

Reductions should be concentrated on business: energy costs, incentives to raise capital, etc. Within the area of relief for small businesses, is it possible/sensible to concentrate relief on companies starting up rather than on continuing businesses?



GEORGE CARDONA

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