

Briefing Note



No. 9
10.3.82

THE 1982 BUDGET

Introducing his Budget on 9th March, Sir Geoffrey Howe said, "This will be a Budget for industry - and so a Budget for jobs. But it will be a Budget for people as well. It is a Budget that will strengthen the foundations of economic recovery" (Hansard, Col. 727).

A BUDGET FOR INDUSTRY

Falling inflation creates the confidence industry needs if it is to invest, and helps it to compete. Downward pressure will continue to be maintained on the growth of the money supply. The outlook for inflation has improved since the forecast published in December 1981. The year-on-year increase in the RPI is now expected to be 9 per cent by the end of this year and 7½ per cent by the middle of next.

Downward pressure on interest rates. The recent downward trend will be reinforced by this Budget. The £9½ billion borrowing requirement for 1982-83 will underpin confidence in the markets and confirm the trend. This, and measures to improve the method of funding of government debt, will ease the financing of industry. The CBI estimates that each 1 per cent off interest rates is worth £350 million to industry.

Cuts in industry's costs

Employers' National Insurance Surcharge, introduced by the last Government, and described by the Chancellor as "a tax on employment", is to be reduced by 1 per cent. The private sector will benefit by £640 million in 1982-3. (Business has been protected from any increase in the rate of its National Insurance contributions for two consecutive years).

Energy costs to large industrial users will be reduced in a package worth £150 million. This new help, taken together with the measures announced in the last Budget, should reduce the energy costs of British industry, compared with what they would otherwise have been, by over £250 million in the two years concerned. The increased duty on derv is less than full revalorisation; duty on aviation fuel has been halved; and duty on heavy fuel oil is not being increased at all for a second year.

Falling oil prices benefit industry both by reducing costs and increasing worldwide demand - something no set of Budget measures could do. Each 10% cut in oil prices has the same effect as 1% or more off National Insurance Surcharge, and could expand world trade by 1% in a year.

The construction industry, which can make a particularly significant contribution to job creation, will receive substantial encouragement. Investment in housing, on water and sewerage projects, and on other construction projects will rise by 14% to £10¼ billion in 1982-3. Local authorities have been assured that they can spend £3 billion on housing in 1982-3, of which £1 billion will come from the sale of council houses. A package of measures will promote the reclamation of derelict land, the building of property for private sector letting and of small workshops, and an increase in work on home improvement and insulation.

Small Business, Enterprise and Innovation

The Government has shown consistent determination to promote enterprise, investment and jobs. Continuing this policy, the Chancellor announced the following Enterprise Package:

* A major extension of the extremely successful Loan Guarantee Scheme.

- * More generous ceilings for tax relief on investment under the Business Start-up Scheme.
- * Higher profit limits for Corporation Tax on small companies, and a higher threshold at which they must register for VAT.
- * New arrangements for tax relief for unquoted trading companies which purchase their own shares, intended to overcome some of the obstacles to small companies raising equity capital.

Innovation and technology. £100 million will be added over 3 years to government spending on R&D. The first year capital allowance on leased television sets equipped with teletext will be extended, at a cost of £30 million. A third of total investment in the nationalised industries planned in 1982-3 - 1984-5 is destined for British Telecom, to spearhead the growth of information technology in Britain.

Profit sharing has increased dramatically under this Government. Since 1979, the number of employee share schemes has increased from 30 to over 400. Further measures will make share option schemes even more attractive to employers and employees.

A BUDGET FOR JOBS

The Chancellor referred to the "waste of human resources" involved in unemployment. "It is no service to the unemployed to suggest that there is any swift or simple remedy ... The truth is 'reflation' does not create jobs that last. In the long run, it helps destroy them" (ibid., Col. 730).

The Chancellor announced a new scheme providing locally sponsored community projects for the long-term unemployed. They will be paid an allowance broadly equivalent to their benefit entitlement plus expenses. The number of places available will depend upon demand; £150 million a year is expected to support around 100,000 places. The Chancellor said that this scheme, "unorthodox" in concept, "makes a lot of practical sense" (ibid., Col. 732). Altogether in 1982-3, £1½ billion will be spent on special employment and training measures. By 1984-5, £1 billion will be spent on the Youth Training Scheme alone - a major advance for school leavers who cannot find jobs.

Meanwhile, the main boost to jobs will come from the better climate for industry resulting from the Budget and the falling price of oil.

A BUDGET FOR PEOPLE

Many individuals will benefit by the cut in mortgage interest rates, made possible by the Budget, and expected by this weekend.

Income tax allowances and the thresholds for the higher rates have been raised by about 2% more than inflation, and retirement annuity reliefs have been improved.

Capital Gains Tax is to be transformed for the future by indexation, so that 'paper gains' on assets held for more than a year will not be taxed. The exempt slice will be raised to £5,000. Bands for Capital Transfer Tax are being raised, and will be indexed.

Excise duties will be increased: 5p on 20 cigarettes; 2p on a pint of beer; 10p on a bottle of wine; 30p on a bottle of spirits; 9p on a gallon of petrol; £10 on vehicle excise duty; 2½ per cent on pool betting duty.

Most social security benefits (including retirement pensions, unemployment pay and child benefit) will rise next November by 11%. This will fully index them for this year's expected inflation, and make good last year's 2% shortfall. Further help has been given to charities, and mobility allowance paid to the disabled will be taken out of tax altogether.

LMR/JV