

BUDGET - SECRET

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PRIME MINISTER

PSBR

The paper on Economic Strategy still talks about a PSBR of £8 billion. In view of the high level of asset sales, the present rapid growth of private sector borrowing, and difficulties in controlling money growth, £7bn would be a much better target.

Too lax a PSBR figure too early in the government's life will undermine the credibility of the counter-inflation strategy and will not put enough pressure on spending departments to cut back their demands. Our background paper shows how PE could be reined back.

MTFS

It is right to set out an MTFS path up to 1988-89, and each year should show a further PSBR fall.

Balance between taxes

The aim should be to lower income tax by raising thresholds and to abolish/reduce capital taxes to encourage enterprise.

This should be financed by reducing tax reliefs on institutional investment (pension fund income, life assurance relief) and by an increase in corporation tax particularly on financial companies following the strong rate of profits growth. This increase is best achieved by cutting tax allowances for capital expenditure which would force the banks into paying a more realistic rate of tax: they currently mobilise tax reliefs through leasing deals.

  
M J. Redwood

8 February, 1984.