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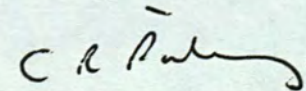
MR FOLGER

cc PS/Chancellor
All recipients of the Treasury Weekly
Brief and/or EB checklist of alternative
policies

'ALTERNATIVE BUDGETS' 1985

I enclose a checklist of alternative Budget strategies which have been published during the Budget season.

2. Among others, it summarises the Alliance's proposals. I understand the Labour Party does not intend to issue a statement or document summarising their Budget ideas. Instead, they are relying on the recent speeches of Mr Hattersley. The few substantive proposals he has made are summarised at part C.



C R PICKERING

1984-85 CHECKLIST OF ALTERNATIVE BUDGET PROPOSALS

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- NB. 1. The information in this Checklist is based on the actual documents where available: otherwise it depends on Press reports only.
2. Costings and predictions quoted are primarily those of the authors of the policies: they are not necessarily endorsed by the Treasury.

A CBI

A1 **Make it Work**
CBI Budget representation
published 23 January 1985

Endorses Government's strategy for defeating inflation and holding down public sector costs to make room for lower interest rates and lower tax burden. Within strategy, Government could in 1985 Budget help stimulate business activity so as to create more jobs in medium term by

- (i) raising personal tax allowances by 10 per cent (cost £1.5 billion in 85-86, £1.7 billion in full year). NB this to be followed by similar higher-than-inflation increases in succeeding years
- (ii) reducing (employee) NI contributions - and make start on reform of structure esp. harsh impact on contributor of payment on full earnings when threshold crossed.
- (iii) improving capital allowances to be set against corporation tax to 25% straight line write down (cost nil 85-86, £0.9bn in full year)
- (iv) giving partial rates relief for business premises (cost £0.6 billion in 85-86, £0.4 billion in full year)
- (v) exempting from Capital Gains Tax of stock held for over 7 years (cost £ nil in 85-86, £0.65 billion in full year) - pending review of whole system.

- Above, with various other measures listed in the CBI submission, is estimated to increase PSBR by £2 billion above figure yielded by tax neutral policies in 85-86, £3 billion in full year (after allowing for increased revenue from expanding economy) but keep it declining absolutely and as percentage of GDP

- On expenditure side CBI claim that economies could be made in current spending sufficient to release up to £6 billion over time for increased infrastructure spending.

A2 Institute of Directors
Budget representations
published 15 January 1985

Urges Government to keep to framework of MTFs and work towards zero inflation, aim to reduce level of public expenditure not just hold it steady, and introduce Medium Term Fiscal Strategy.

Specific recommendations designed to reduce 'the distortions of the price mechanism through taxation' include:

- (i) Reduction in basic and higher income tax rates by 1p, and higher rates by additional 5p (cost £1.3 billion in 85-86)
- (ii) Increasing all personal allowances and higher rate thresholds by 4 per cent above indexation (cost £0.7 billion in 85-86)

- (iii) Abolishing CTT (cost £1 billion in 85-86) and CGT and DLT
- (iv) (Re)introduction of child allowance against income tax in place of Child Benefit
- (v) Increasing VAT threshold
- (vi) No change in relief on mortgage interest payments and pension contributions
- (vii) No change in VAT base.

A3 Association of British
Chamber of Commerce
Budget representations
published 4 February 1985

Argue against using any available fiscal adjustment to raise after tax incomes of the employed but rather use public sector capital spending to provide more jobs - apart from fact that infrastructure spending 'justifiable in its own right'.

Recommend:-

- £1 billion capital outlay on improving communications (road construction, railway electrification); clearing derelict land; improving water and sewerage systems; replacing improving or repairing housing
- to be financed from sale of part of PSA estate and by cutting current spending

B TUC

B1 Budget representations
published 13 December 1984

Recommends £2.3 billion programme in Budget ('complementary' to TUC's repeated recommendations for increase in public sector capital investment programme) for increased current spending designed to 'reverse trend towards greater inequality and poverty'. including

- (i) keep universal Child Benefit and increase to £9.85 (with parallel increase for single parents)
- (ii) increase retirement pension to £45.60 (single), £73.30 (married)
- (iii) pay long term rate supplementary benefit to long term unemployed
- (iv) rescind 1984 housing benefit cuts
- (v) No change in VAT base - Cost to be met by forgoing £1½ billion fiscal adjustment tax cuts plus recourse to Reserve.

C LABOUR PARTY

- C1 Mr Hattersley's speech in St Albans on 8.1.85
- (i) Called for £3 billion in job creation, half instead of tax cuts and half funded by borrowing and maintaining PSBR at 1984-85 level.
- C2 Mr Hattersley in House of Commons Debate on unemployment 15.1.85 (OR cols 197-211)
- (i) MTFs should be abandoned: economy needs an increase in real demand.
3. Mr Hattersley in House of Commons Debate on the economy 31.1.85 (OR cols 490-496)
- (i) £1½ billion tax cuts should be replaced by investment in infrastructure
- (ii) Increase expenditure on special employment measures
- C4 Radio interview of Mr Hattersley 8.3.85
- (i) Priorities to alleviate poverty and unemployment
- (ii) Redistribute 'rather more than £3 billion' of tax reliefs to the 'very rich' down the income scale. Measures to include abolishing UEL for NICs.
- (iii) Increase public sector capital investment, while holding PSBR at 1984-85 level.

D CONSERVATIVE CRITICS

D1 **Work to be Done**
published 18 February 1985

Pamphlet described as 'an employment policy for 1985 and beyond' published by Mr Nigel Forman MP and Mr J Maples MP, proposes 'imaginative and eclectic approach' involving acceptance of £10 billion PSBR in 1985-86 (£3 billion above 1984 FSBR figure) permitting allocation of £4½ billion to employment-creating measures:-

- (i) 'modest real increase' in personal allowances (not costed);
- (ii) more resources allocated to urban renewal and expanded programme of home improvement grants (PSBR cost £1 bn);
- (iii) cut in employers' NIC - from 10½ per cent to 8½ per cent (PSBR cost £1.6bn);
- (iv) increase in lower earnings limit for NIC - to be financed by lifting upper limit;
- (v) encouraging labour mobility by relaxing rules on resale of council houses, abolishing stamp duty on house purchase (cost £200 m in full year), and pushing on with reform of occupational pensions;
- (vi) 'more positive' Government trade and industrial policy (eg more support for new technology, 'worthwhile' infrastructure projects to go ahead, measures to discourage locations of businesses in overdeveloped areas), combined with energetic pursuit of liberalisation of international trade;
- (vii) direct subsidies to employers taking on new labour (based on proportion of PSBR cost of their staying out of work);
- (viii) easier conditions for payment of Enterprise Allowance;
- (ix) expansion of vocational training and retraining, for adults, especially the unemployed;
- (x) encouragement of part-time work by such measures as higher earnings disregards for benefit purposes;
- (xi) extension of longer term rate of Supplementary Benefit to the long-term unemployed.

D2 Tory Reform Group
Budget representations
5.3.85

Priority to reduce unemployment. Main specific proposals:

- (i) At least £2 billion on public sector capital investment, particularly housing.
- (ii) Index income tax thresholds (but not higher rate bands), alcohol and other duties (except cigarettes and tobacco - more than index)

- (iii) Better to more than index duties than increase VAT coverage. (No VAT on books and newspapers)
- (iv) Increase Child Benefit: increase taxable against higher rates
- (v) Extend YTS to all 17 year olds
- (vi) 1 year 'holiday' from NICs for new workers, young unemployed and long-term unemployed. Revise UEL. Better to reduce NICs than increase income tax thresholds
- (vii) Give long term unemployed higher rate supplementary benefit
- (viii) Do not reduce tax relief on pension contributions.

D3 Edward Heath
'Guardian' 13.3.85

Advocates 'Medium term real strategy'. In 1985-86 would set PSBR at £12 billion. to finance:

- (i) £2 billion on infrastructure investment
- (ii) increase child benefit by £1.85 per child per week (cost £975 million)
- (iii) £1.5 billion on national training system
- (iv) £1.5 billion for Department of Trade and Industry investment in manufacturing industry and regional policy.

E ALLIANCE PARTIES

E1 Dr Owen speech
at Carmarthen
(SDP Welsh Council)
14 October 1984

also set out, in brief,
in article in 'The Times'
4 November 1984

Proposals for reducing unemployment by 1 million presented as compromise 'National Jobs Plan' susceptible of bipartisan adoption (while falling short of what Alliance parties would ideally endorse), at a cost of £2.9 billion over two years (1984-85 and 1985-86).

- (i) Emergency measures restructure employers' NIC building - in incentives to employ low-skilled and additional workers, expand Community Programme and employ more women in Personal and Social Services - net total cost to PSBR £1.82bn
- (ii) Capital investment at net total cost of £1 billion in housebuilding and renovation, roads and sewer repairs and maintenance
- (iii) Encouragement of innovation expansion of Loan Guarantee Scheme, Enterprise Allowance Scheme, Office and Service Industries Grant Scheme: net total cost to PSBR £116 million

Dr Owen recognises the risk of inflationary pressures from adoption of his Plan, and proposes making the capital spending programme conditional on low pay rise undertakings and warning the private sector that 'a tough counter-inflation tax' might yet be considered by the Government.

E2 Dr Owen in Debate
15 January 1985
(Hansard col 218)

Recommended action on:-

A falling £

- (i) mobilise concerted action among European countries to put moral pressure on US to reduce deficit;
- (ii) explore ways of curbing oil price volatility eg by restricting UK output (in concert with Norway and);
- (iii) join exchange rate mechanism of EMS (at or below current £/DM values);

B unemployment

- (i) increase public sector investment (private sector investment needs to rise too);
- (ii) ease poverty and unemployment 'traps' by improving family support rather than through tax cuts;
- (iii) increase spending on community programme
- (iv) reduce and restructure national insurance contributions to ease burden on employers - to be self-financing if only possible way.

Above to be financed by accepting higher PSBR and/or accepting postponement of tax cuts and/or 'sensible' degree of widening of VAT base (not food). Any tax cuts to be 'specifically

and positively geared to creating more jobs'.

E3 Alliance 'Economic Strategy'
and Budget priorities for
1985'
(published 1 March 1985)

Priorities are 'those out of work and those in need'. Main elements to proposals are:

A) more expansionary budget policy. Increase public expenditure by around £4 billion in 1985-86, partly funded from 'fiscal adjustment' of £1.5 billion and partly through increasing PSBR by £1.9 billion.

Specific proposals are:

- (a) Reduce employers' NICs by 1% (gross cost £745 million and re-structure by raising UEL to finance NIC 'holiday' for employees recruited from long-term unemployed.
 - (b) Increase public sector capital spending by £1 billion. (£800 million on construction, £200 million on roads)
 - (c) Increase Community Programme from 130,000 to 250,000 in 1985-86, and introduce new programme for long-term unemployed under 25. Total gross cost £685 million.
 - (d) Extend YTS to two years, to cover all 16 and 17 year olds who apply, at gross cost of £600 million.
 - (e) Long-term unemployed under 60 to receive long-term supplementary benefit at cost of £485 million.
 - (f) Restore cut in heating allowance at cost of £85 million.
 - (g) Extend and restructure Family Income Supplement, at cost of £475 million.
- B) 'Steady' monetary policy, supporting 'stable and competitive' exchange rate within EMS. Industrial credit scheme, offering low interest rate finance for some industrial investment.
- C) Possible pay freeze in first year of incomes policy, followed by, if necessary, pay 'norms' reinforced by 'inflation tax'.

F ECONOMISTS

F1 Mr John Kay, Director of
Institute of Fiscal Studies
addressing Society
of Business Economists
13 December 1984

(compare option B
at G3 below)

F2 Dr Paul Nield
of Phillips & Drew
in Sunday Times
3 February 1985

F3 IFS Budget Briefing 1985
published by Institute of
Fiscal Studies
18 February 1985

Proposed package of 'tax reforms' including higher take home pay and encouragement of personal investment:-

- (i) income tax cuts, either through raising thresholds or lowering basic rate, worth £5 billion
- (ii) capital gains tax and stamp duty to be abolished - cost £1.5 billion

to be financed by:-

- (i) extension of VAT to more items including fuel and food (contingent on modifying income tax structure to give proportionately more to lower incomes to offset impact of paying more VAT)
- (ii) new taxes on pension funds' investment income and tax on pension lump sums.

Budget speech should contain reaffirmation of philosophy of MTFS and following proposals:

- (i) Target ranges for 1985-86 to be as in 1984 MTFS - with emphasis on holding aggregates to middle of that range;
- (ii) PSBR set at £5 billion - £2 billion less than in 1984 FSBR - after taking account of revised forecasts of North Sea tax revenue, tax reforms featuring more revenue from taxes on spending, inducements to build savings and elimination of anomalies between different forms and more than indexation of personal allowances, with view to improving working of supply side. (Net effect a negative fiscal adjustment of £½ billion.)

NB The tax reforms would include bringing lump sums on retirement into tax (on a phased basis), extending VAT to more goods and services eg books, newspapers, construction, banking services.

Offers two alternative options - tighter fiscal policy versus tax reforms to benefit supply side:

A Achieve reduction in PSBR to £6 billion (£1 billion less than in 1984 FSBR) while (i) increasing personal allowances in real terms by 8 per cent - comparable last year - financed by (ii) modest extension of VAT (newspaper advertising, luxury foods), (iii) modest increase in above normal indexation in duties on drink and petrol, (iv) tax on financial services, (v) once for all acceleration of receipts from building societies.

B Set PSBR at £7 billion as in 1984 FSBR and achieve massive switch between taxes on income and on spending, involving (i) 20 per cent real increase in personal allowances (more than twice Option A that is), (ii) reduction in income tax higher rates, (iii) abolition of CGT financed by (iv) applying VAT at 5 per cent to goods and services currently exempt or zerorated, (v) doubling Option A increase above indexation for petrol duties, (vi) introduce 20 per cent tax on pension funds' income.

Discussing the options, IFS argues increasing VAT not so regressive as widely believed provided proceeds applied to increasing child benefit and lowering tax thresholds which it favours while disagreeing with view this would significantly help ease poverty trap or increase incentive to work. IFS also give reasons against introducing taxation of funds income, consider reform of NI contributions to incorporate them into tax system would ease traps, and believe use of the fiscal adjustment for public investment would create more jobs than tax cuts.

F4 NIESR
February Review
published 21 February 1985

Predicts need for £2.5 billion increase in taxation in 1985 Budget to adhere to £7 billion PSBR in 1985-86, as in 1984 FSBR. [Estimated to be equivalent to extra 2½ per cent in £ on income tax or VAT rate rise from 15 to 18 per cent.]

Argues for relaxation of PSBR to permit tax cuts - or public spending increase. Visualises £11 billion PSBR if £1½ billion tax cuts of Autumn Statement to be achieved.

F5 Patrick Minford, in
'Daily Telegraph'
on 4.3.85

(i) Substantial tax cuts essential, 1985-86. PSBR target £8 billion, allowing £2 billion cuts (net PSBR effect £1.5 billion). Further £1 billion tax cuts financed from tax increases, mainly of pension fund income.

(ii) Tax thresholds to be raised 20 per cent above indexation, at total cost of £3 billion.

(iii) Target ranges of 3-7 per cent for MO and 3-9 per cent for M3.

(iv) Increase threshold and UEL of NICs. Perhaps abolish UEL.

(v) Long-term aim to reform tax treatment of pension funds, mortgage interest relief and VAT exemptions/zero rating.

F6 Richard Layard in
'Guardian' on 8.3.85

Budget should be carefully structured so extra jobs do not generate labour shortages: best to concentrate on long-term unemployment:

(i) job guarantee for long-term unemployed: all unemployed more than 1 year to be on Community Programme, within two years. 750,000 jobs cost about £1½ billion.

(ii) Increase infrastructure investment.

- (iii) Reduce employers' NICs and exempt long-term unemployed for first 2 years of employment. Full year cost £1 billion. New jobs to be exempted from NICs. Full year cost also £1 billion. Abolish NICs on, say, first £90 of wages.
- (iv) Introduce counter-inflation tax.