

Top Copy on Japan,
Nov '79, Internal
situation



Prime Minister

(2)

A useful list.

MCS 11/11

Treasury Chambers, Parliament Street, SW1P 3AG
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R Bone Esq.
Foreign and Commonwealth Office

Dear Roger,

OTHER COUNTRIES FISCAL POLICIES

The Chancellor thought that Cabinet colleagues might, in addition to other briefing material being circulated this week, find it helpful to have a background note containing examples of fiscal measures that have been taken or are in prospect in other countries.

I attach a short paper that has been prepared here with some illustrative material of this kind.

I am sending copies of this letter to Michael Scholar (No. 10) and to the Private Offices of other Cabinet members.

Yours sincerely,

Jill Rutter

JILL RUTTER
Private Secretary

OTHER COUNTRIES' FISCAL POLICIES

Budget plans for 1983 have now been announced in most countries. It is clear that governments are determined to restrain borrowing even if this involves hard decisions to cut spending or raise taxes.

2. In the wake of the first oil price increase many industrial countries allowed public expenditure to rise. Following the second increase countries recognised that they faced large deficits which would not disappear in the foreseeable future. Subsequently the main emphasis of policy has been to reduce these deficits, cut national cost overheads and seek to improve market efficiency. Within tightly controlled expenditure limits governments are also trying to change the balance of expenditure from current to capital expenditure, and to switch the burden of taxation from industry. Any increase in expenditure has generally taken the form of aid to industry or employment programmes.

3. Some illustrations of measures taken or in prospect are set out below:

Social Security benefits

- (i) The French government intends to index social benefits to the inflation target rather than the inflation outturn. Pension increases are to be delayed by 6 months.
- (ii) The German government is to introduce means-testing for child benefits as well as delaying pension increases for 6 months.
- (iii) The Belgian government intends to reduce family allowances. Unemployment benefit has also been reduced for some groups.
- (iv) The Danish government is to de-index social security payments.

Social security contributions

- (i) The French government plans to raise the contributions of people who have taken early retirement and levy a 1 per cent contribution from some civil servants (previously they were exempted).
- (ii) The Danish government is increasing employees and employers contributions.

(iii) The Belgian government intends to increase personal contributions.

Health expenditure

(i) The French government intends to introduce a "hotel" charge for some hospital patients, of 20 Francs per day.

(ii) The German government plans to make patients contribute to the cost of in-patients' hospital treatment for the first 14 days.

(iii) The Belgian government has banned further hospital building.

(iv) The American government has cut \$13 billion from planned expenditure on its Medicare programme.

Public sector pay and numbers

(i) The German government will be limiting pay increases for public servants to 2 per cent.

(ii) Japanese public servants are to receive no cost of living adjustment this year.

(iii) The Belgian government has stopped recruitment and intends to reduce the numbers employed by $1\frac{1}{2}$ per cent.

(iv) The Danish government intends to impose a ceiling of 4 per cent for public sector wages increases in 1983-85.

Income tax

(i) The German government plans to raise a special levy from higher tax payers.

(ii) The French government will raise the top rate of tax on earned income from 60 per cent to 65 per cent.