

DD 211200Z BONN **IMMEDIATE**

GRS 400
 UNCLASSIFIED
 DESKBY 211200Z
 FM THE HAGUE 211005Z SEP 83
 TO IMMEDIATE BONN DESKBY 211200Z
 TELEGRAM NUMBER 001 OF 21 SEPTEMBER
 INFO IMMEDIATE FCO AND H M TREASURY (FOR GRAHAM)
 INFO ROUTINE ECGD, DOT, BANK OF ENGLAND (FOR PORTER) AND BE
 BRUSSELS
 INFO SAVING UKREP BRUSSELS AND WASHINGTON

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FOR PPS TO PRIME MINISTER
 DUTCH 1984 BUDGET

SUMMARY

1. THE MAIN OBJECTIVE OF THE BUDGET ANNOUNCED ON 20 SEPTEMBER, IS TO REDUCE THE BUDGET DEFICIT. THE MEASURES INCLUDE STRINGENT CUTS IN SPENDING. EVEN SO, THE GOVERNMENT HAS HAD TO ABANDON ITS TARGET OF A 1.5% ANNUAL REDUCTION IN ITS FINANCING DEFICIT, ESTIMATING THAT THE 1984 FIGURE WILL BE 12.1% OF NET NATIONAL INCOME, 0.3% BELOW 1983.
2. THE BUDGETS OF MAJOR SPENDING DEPARTMENTS EG EDUCATION, HOUSING, HEALTH AND WELFARE, ARE BEING SUBSTANTIALLY CUT. PUBLIC SECTOR INCOMES (OF BOTH CIVIL SERVANTS AND BENEFIT CLAIMANTS) WILL BE REDUCED BY APPROXIMATELY 3.5%. ON THE OTHER HAND, PRIVATE SECTOR REAL INCOMES WILL (EXCEPT FOR THE HIGHEST PAID) BE REDUCED ONLY MARGINALLY AS TAX INCREASES ARE BALANCED BY LOWER SOCIAL SECURITY CONTRIBUTIONS. SUBSTANTIAL FISCAL AND NON-FISCAL MEASURES TO REVITALISE INDUSTRY AND CREATE WORK ARE ALSO PROPOSED.

MEASURES

3. THE PRINCIPAL REDUCTIONS IN SPENDING ON 1982 FIGURES (IN GUILDERS) ARE:-

(A) SOCIAL SECURITY PAYMENTS	3.4 BN
(B) PUBLIC SECTOR EMOLUMENTS	3.0 BN
(C) OTHER DEPARTMENTAL SPENDING	2.9 BN
(D) HEALTH SERVICE	1.2 BN
(E) SICKNESS BENEFITS	0.1 BN
TOTAL	10.6 BN

4. THE CUTS UNDER (A) INCLUDE MEASURES TO REDUCE ALL BENEFITS BY 3.5% FROM 01 JANUARY. IN ADDITION, THE NORMAL ANNUAL BENEFIT INCREASE LINKED TO THE CONSUMER PRICE INDEX WILL NOT BE PAID. FURTHER UNSPECIFIED REDUCTIONS IN UNEMPLOYMENT AND SICKNESS BENEFITS WILL BE IMPLEMENTED IN JULY 1984.
5. UNDER (B) SALARIES WILL BE REDUCED FROM THEIR PRESENT LEVELS BY 3.5% FROM 1 JANUARY. IN ADDITION, THE FIRST 2% OF THE NORMAL ANNUAL INCREASE LINKED TO THE CONSUMER PRICE INDEX WILL NOT BE PAID, LEAVING AN ESTIMATED POSSIBLE INCREASE OF ONLY 0.8%. TALKS ON THESE REDUCTIONS WITH THE UNIONS WILL ALSO COVER WORKSHARING, SHORTER HOURS, AND A 2% REDUCTION IN NUMBERS. IN ADDITION, THERE WILL BE A DRIVE TO ECONOMISE ON, INTER ALIA, TRAVEL BUDGETS AND INFORMATION SERVICES OF GOVERNMENT DEPARTMENTS.
6. REVENUE-RAISING PROPOSALS TOTAL GUILDERS 3BN AND INCLUDE:
 - (A) ADDITION OF 1% TO THE VAT RATES OF 4% AND 18% (GUILDERS 1.6 BN)
 - (B) INCREASE IN EXCISE DUTY ON ALCOHOL AND TOBACCO (GUILDERS 0.4 BN)
 - (C) REVISIONS TO PERSONAL TAX THRESHOLDS (INCLUDING INFLATION DADJUSTMENT), AND MORE EFFECTIVE TAXATION OF HOUSEHOLDERS WITH MORE THAN ONE WAGE-EARNER (GUILDERS 1.0 BN)
7. MEASURES TO STRENGTHEN THE PRIVATE SECTOR TOTAL GUILDERS 1.5 BN, INCLUDING A REDUCTION IN CORPORATION TAX FROM 48% TO 43%, AND REDUCTIONS IN EMPLOYERS' SOCIAL INSURANCE LIABILITIES. OTHER MEASURES INCLUDE GRANTS FOR R AND D, ASSISTANCE FOR NEW SMALL AND MEDIUM SCALE BUSINESSES AND AN EASING OF PROVISIONS FOR THE OFFSETTING OF LOSSES.
8. EXISTING PROGRAMMES TO COMBAT UNEMPLOYMENT WITH JOB-CREATION SCHEMES ARE BEING INCREASED AT A COST OF GUILDERS 1 BN.
9. PLEASE SEE MIFT FOR INITIAL REACTIONS TO THIS BUDGET.

FCO PSE UNDERTAKE COPYING ACTION.

MANSFIELD

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FOLLOWING FOR PPS TO PRIME MINISTER
MIPT DUTCH BUDGET

1. THE BUDGET HAS BEEN PUBLISHED IN DETAIL. LUBBERS HAS BEEN INTERVIEWED BY THE PRESS AND ON TELEVISION WHERE HE GAVE THE IMPRESSION THAT HE WAS DETERMINED THAT HIS GOVERNMENT WOULD NOT ALLOW THIS BUDGET TO BE SUBSTANTIALLY ALTERED IN THE DEBATE IN THE SECOND CHAMBER OR AS A RESULT OF STRIKES.
2. THE LIBERAL COALITION PARTNERS HAVE REACTED VERY POSITIVELY DESCRIBING IT AS A HISTORIC TURNING POINT, EVEN THOUGH THE FINANCING DEFICIT WILL NOT BE CUT THIS YEAR BY AS MUCH AS WAS PREVIOUSLY HOPED (1.5%). (NEVERTHE LESS THIS WILL BE THE FIRST TIME FOR TEN YEARS THAT THE DEFICIT HAS NOT INCREASED). THE CDA IS GENERALLY CONTENT WITH THE PROPOSALS, BUT HAS EXPRESSED DISQUIET AT THE PROSPECT OF STEEP INCREASES IN PARENTAL CONTRIBUTIONS TOWARDS THE COST OF SECONDARY AND TERTIARY EDUCATION. THE LEFT WING OF THE CDA WILL PROTEST AT THE THE SOCIAL SECURITY CUTS BUT ARE UNLIKELY TO JEOPARDISE THE OVERALL PACKAGE, WHICH IS CAREFULLY BALANCED. DEN UYL (LEADER OF THE LABOUR OPPOSITION PARTY) HAS CONDEMNED THE BUDGET AS LACKING ANY CONCRETE PROPOSALS TO ALLEVIAT UNEMPLOYMENT.
3. FINANCIAL AND INDUSTRIAL CIRCLES, WHICH HAVE LONG SUPPORTED THE GOVERNMENT'S EFFORTS TO REDUCE THE DEFICIT, NOW ACCEPT THAT RELENTLESS PURSUIT OF THE ORIGINAL TARGET WOULD HAVE PRODUCED YET HIGHER UNEMPLOYMENT, AND WOULD PROLONG AND DEEPEN THE RECESSION. THE EMPLOYERS' FEDERATIONS ARE ESPECIALLY PLEASED WITH THE REDUCTION IN CORPORATION TAX.
4. TRADE UNION REACTION IS ALONG THE SAME LINES A DEN UYL'S. THE FIERCEST OPPOSITION TO THE BUDGET SO FAR IS FROM THE CIVIL SERVICE UNIONS WHO HAVE COMPARED THEIR PLIGHT TO THAT OF THE BELGIAN CIVIL SERVANTS. AND HAVE PROMISED STRIKES IF THE GOVERNMENTS PROPOSALS ARE NOT SOFTENED. MOST OBSERVERS DO NOT BELIEVE THAT SUCH ACTION WOULD HAVE THE WIDESPREAD SUPPORT OF PUBLIC SERVICE UNION MEMBERS, AS THE GOVERNMENT'S PROPOSALS REFLECT CURRENT TRENDS IN THE PRIVATE SECTOR (ABANDONMENT OF INDEXATION OF SALARIES) AND FOR SOCIAL SECURITY BENEFICIARIES (CUTS IN PAYMENTS).
5. WE BELIEVE THAT THERE IS SUFFICIENT CONSENSUS IN THE ELECTORATE AND IN THE SECOND CHAMBER TO ALLOW THIS BUDGET TO STICK. AS THE MONTHS PASS MANY WILL EXPERIENCE SHARP CUTS IN SALARIES AND INCOMES . BUT I DO NOT EXPECT THE SAME REACTIONS AS IN BELGIUM BECAUSE INFLATION IS MUCH LOWER IN THE NETHERLANDS, CIVIL SERVICE SALARIES ARE HIGHER AND THE BURDEN HAS BEEN EQUITABLY SPREAD.

FCO PSE PASS SAVING COPIES.

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