

1 copy in the
district



10 DOWNING STREET

Prime Minister ①

After I had minuted out
you a agreement to the
Chancellor's proposals, Sir
Robert Armstrong minuted
suggesting no increase in
the anti-evasion effort and
no announcement.

After discussion with Sir
Lawrence Avey, he put
in a new minute - attached.

I see no reason for you
to come to a different
conclusion but thought
you might like to be
aware of this

Sir Robert's minute ^{AT} 15/11
echoes my own original
feelings - I think it would
be better to proceed more

slowly - say to go
from 70 to 200 and
no announcement. Let us
be then whatever happens.
not



Ref. A083/3259

MR BUTLER

Inland Revenue Manpower and the Black Economy

I minuted you about this yesterday (Ref. A083/3245). with AT

2. Sir Lawrence Airey has now seen a copy of my minute. He said that the CPRS report on the black economy had demonstrated that there was no ground for thinking that the black economy had been helping to maintain the level of economic activity and to dampen the adverse effects of a high level of unemployment, since increased activity in the black economy depresses activity in the "white" economy. To the extent that the detection of tax evasion in the black economy takes resources out of the black economy it puts them at the disposal of the Chancellor of the Exchequer to redistribute more in accordance with the Government's economic objectives. Sir Lawrence Airey tells me that the Chancellor of the Exchequer and Treasury officials have accepted the CPRS analysis.

3. I remain less than totally convinced by this. My instinct is that the total level of economic activity has been higher as a result of the black economy because some of the activity now undertaken in the black economy would not occur if it was caught by Inland Revenue taxation and VAT. But I clearly cannot prove that; and I note from Sir Lawrence Airey that it would be advantageous, in presenting further manpower cuts in the Inland Revenue to the Civil Service unions, to be able to say there is some redeployment of staff into the detection of tax evasion in the black economy. I would not wish my point to be proceeded with, if the Prime Minister is content that the Chancellor of the Exchequer should go ahead as he proposes.

4. I am sending copies of this minute to the Private Secretaries of the Chancellor of the Exchequer and Sir Lawrence Airey.

RA

15 November 1983

ROBERT ARMSTRONG

No if
doubt -

CONFIDENTIAL



2020

Not sent to PM
AT 15/11

File

Ref. A083/3245

MR BUTLER

Inland Revenue Manpower and the Black Economy

with AT

The Chancellor of the Exchequer sent me a copy of his minute of 10 November, proposing a redeployment of 850 Inland Revenue staff to work on the problem of tax evasion in the black economy.

2. I can see the arguments for wanting to tackle the problem of "moonlighters" and "ghosts". But in the wider interests of maintaining the level of economic activity I wonder whether this is a matter on which it makes sense to be quite as officious as the Chancellor suggests. There is some reason to think that the black economy has been helping to maintain the level of economic activity and to dampen the adverse effects of a high level of unemployment. There is something to be said for leaving well alone, at any rate while unemployment is at its present level.

3. I should therefore be inclined to argue that it would be better for the Inland Revenue to discontinue this work, or perhaps to keep it at its present level of 70 staff and not to make the increase now proposed by the Chancellor of the Exchequer. That would presumably have the additional advantage of enabling the Inland Revenue to make a larger reduction of staff - nearer 8,000 than 7,000 - in the period up to 1988.

4. If the increase in the level of staff is to go ahead, I think it is a question of whether we really need an announcement.

5. I am sending a copy of this minute to the Private Secretary to the Chancellor of the Exchequer.

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Approved by
ROBERT ARMSTRONG
and signed in his absence.

14 November 1983

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