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Prime Minister +

7 April 1986

The Chancellor presumably
would also delegate to look
at pages 1 and 2!

Dear David

DLW
8/4.

THE BUDGET: What businessmen really think

The Chancellor thought the Prime Minister might be interested to see the attached survey of business opinion about the 1986 Budget. She may be particularly interested in the answers to the question on page 9 - what would you like to see in next year's Budget?

I am copying this to Andrew Lansley (Chancellor of the Duchy's office).

Yours ever
Rachel

RACHEL LOMAX

Enc

MJ



file

10 DOWNING STREET

From the Private Secretary

14 April 1986

THE BUDGET: WHAT BUSINESSMEN REALLY THINK

The Prime Minister read with great interest the survey of business opinion about the 1986 Budget which you sent me with your letter of 7 April.

I am copying this letter to Andrew Lansley (Chancellor of the Duchy's Office).

(DAVID NORGROVE)

Mrs. Rachel Lomax,
HM Treasury.

Lu

Sir Peter Lane

THE BUDGET

What Businessmen
Really Think

THE BUDGET

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THE BUDGET

What Businessmen Really Think

Businessmen are by and large happy with Nigel Lawson's budget last week. The result is seen as good for their companies with positive effects on macro-economic indicators, too. This is the flavour of the results from a survey conducted for us by Dewe Rogerson shortly after the announcement of the budget measures.

Nigel Lawson comes out of the budget with flying colours. The vast majority of businessmen say that he is doing a good job and are confident that the measures will benefit themselves, their companies and the country as a whole. Hardly anyone sees the budget as having a detrimental effect, although some doubt is expressed as to whether the Government is actively trying to tackle the problems that face businesses.

The majority of businessmen feel that the budget will have a positive effect on interest rates, consumer spending, inflation and exchange rates. They are less sure about its effect on unemployment : here they see it as being neutral.

We also asked about specific budget measures; half the companies would not consider the Chancellor's suggestion that lower pay rises could be compensated for by giving employees a share of the company's profits. They are less sure as to their employees' reaction to the scheme.

Another budget measure, the abolition of Capital Transfer Tax on lifetime gifts, is seen as easing the succession of family businesses. Few companies would be prepared to pay the new tax proposed on returning the surplus from pension funds back to their companies. They would prefer to increase the benefits of the scheme or reduce contributions.

And what about next year's budget? Tax cuts are the priority for businessmen, followed some way behind by measures to reduce unemployment.

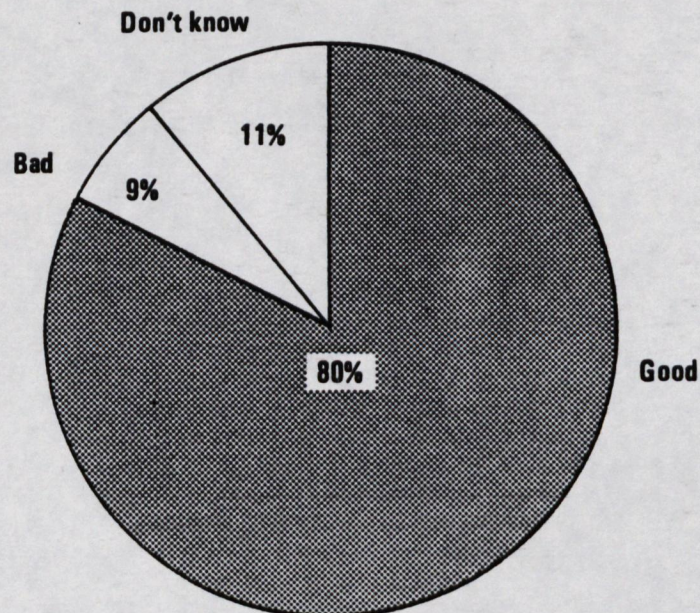
Technical Note

Dewe Rogerson interviewed by telephone on 19 and 20 March 1986, a representative sample of 232 companies with turnovers of more than half a million pounds. At each company the interviewee was either the Managing Director, Finance Director, Company Secretary or another senior Board Member.

The Chancellor of the Exchequer

Businessmen are pleased with the job Nigel Lawson is doing as Chancellor. Indeed, four in five say he is doing a good job with only one in ten holding the opposite view.

Q "Do you think that Nigel Lawson is doing a good job or a bad job as Chancellor of the Exchequer?"



Base : All

Rating of the Budget

Businessmen view the effect of the budget as being better for business generally than for their individual companies. This is not to say they feel that it will be bad for their company but they hold a more neutral view.

Around half of businessmen see the Chancellor's measures as benefiting the country, their company's employees and them personally. Very few believe that the effect of the budget will be negative.

This favourable view is attributed to the consistency of a budget with no sweeping changes. It is also seen as having been neutral, with the reduction in interest rates particularly welcomed:

"It was psychologically good. It was neutral but with the right incentives without causing inflationary pressure"

"Any budget which doesn't introduce wild sweeping changes is a good thing for business. It increases confidence in the Government and is a good thing generally"

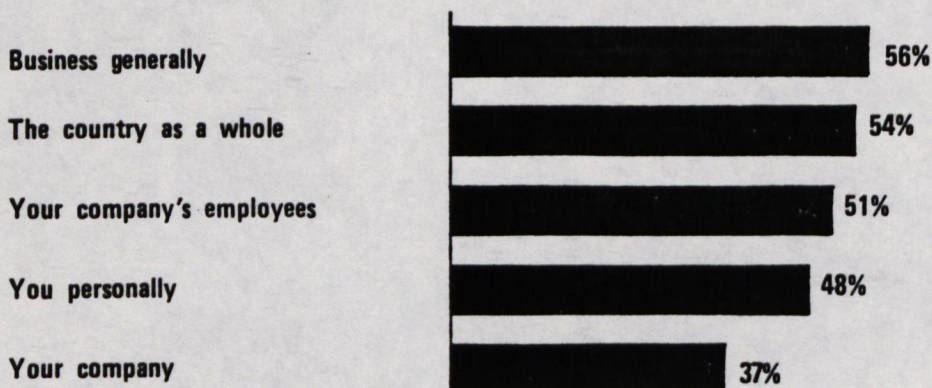
"It's an encouragement to capitalism. Any explanation of capitalism to the small person has to be a good thing"

"The main thing is the cut in interest rates which will follow what he has done. It doesn't damage sterling and public sector borrowing is well down"

"It's in the context of the general policy and that's good for business"

Q "On balance do you think Tuesday's budget was a good thing, a bad thing or would it make no difference to.....?"

Percentage saying a good thing for.....



Base : All

The Effect of the Budget

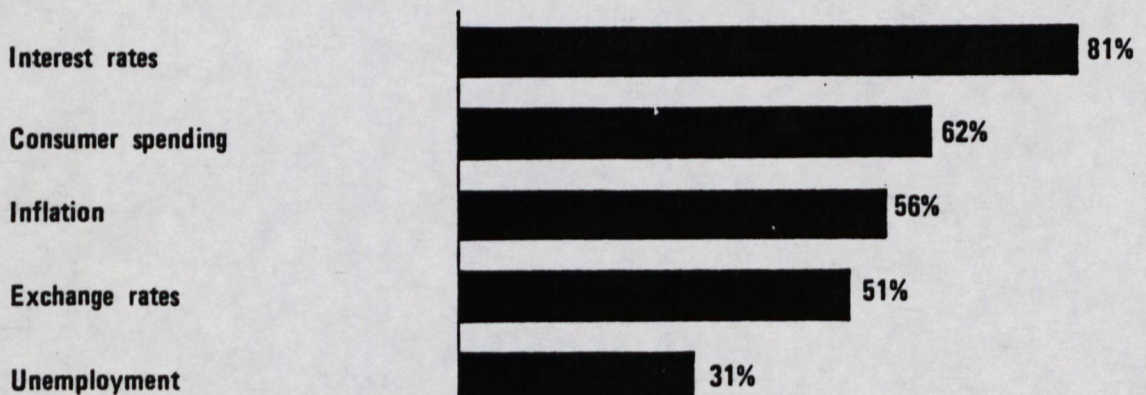
As well as asking businessmen what they felt the effect of the budget would be on their company, we were also interested to see how they viewed it in terms of the economy as a whole. Again the response was a positive one, particularly on its effect on interest rates.

The Chancellor's measures are also seen as being favourable in relation to consumer spending, inflation and exchange rates. Few believe the result to be negative on any of these economic indicators.

The effect of the budget on unemployment is viewed less positively with the majority anticipating a neutral effect.

Q "For each of the following areas I read out, will you tell me whether the budget will have a positive effect, a negative effect or will it have no effect at all?"

% saying a positive effect on.....



Base : All

Profit Sharing

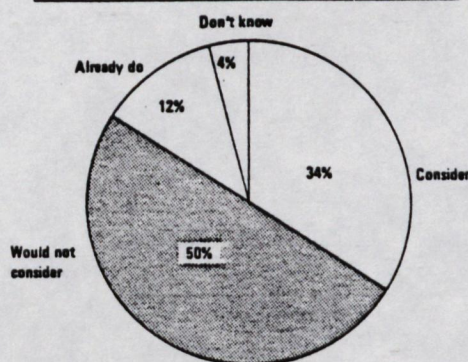
One of the suggestions that the Chancellor made in his speech on Tuesday was that companies could compensate for giving their employees lower wage rises by giving them a share in the profits of the company. Businessmen's reactions to this proposal are not positive, with half saying it would not be considered. However, one in ten do say that they already have such a policy.

Opinion is more equally divided over what the reaction of employees would be to such a scheme. As many believed they wouldn't be interested as said they would.

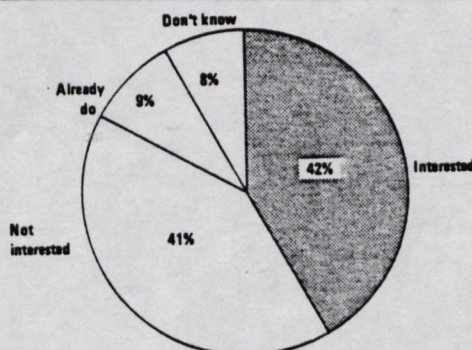
Q "The Chancellor has suggested that companies should reduce the level of wage increases and compensate for these lower increases by giving employees a share in the profits of their company. Do you think that this is something you might consider in your company or not?"

Q "And do you think that your employees would be interested in such a scheme, or not?"

Would you consider it.....?



Would your employees be interested.....?



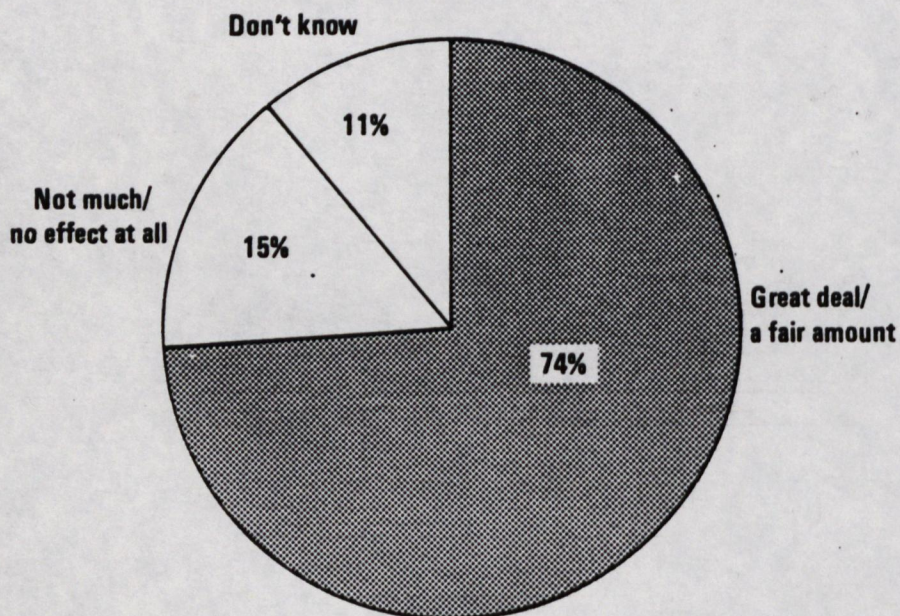
Base : All

Capital Transfer Tax

The Chancellor abolished Capital Transfer Tax on lifetime gifts in his budget. One of the possible effects of this could be to ease the succession of family businesses. We asked businessmen whether they believed that this would result from the tax change.

The overwhelming majority of businessmen do believe that succession of family businesses will be made easier and few doubt the effectiveness of the measure.

Q "How much effect do you think that the abolition of capital transfer tax on lifetime gifts will have on easing succession of family businesses. Will it have a great deal of effect, a fair amount of effect, not much effect or no effect at all?"

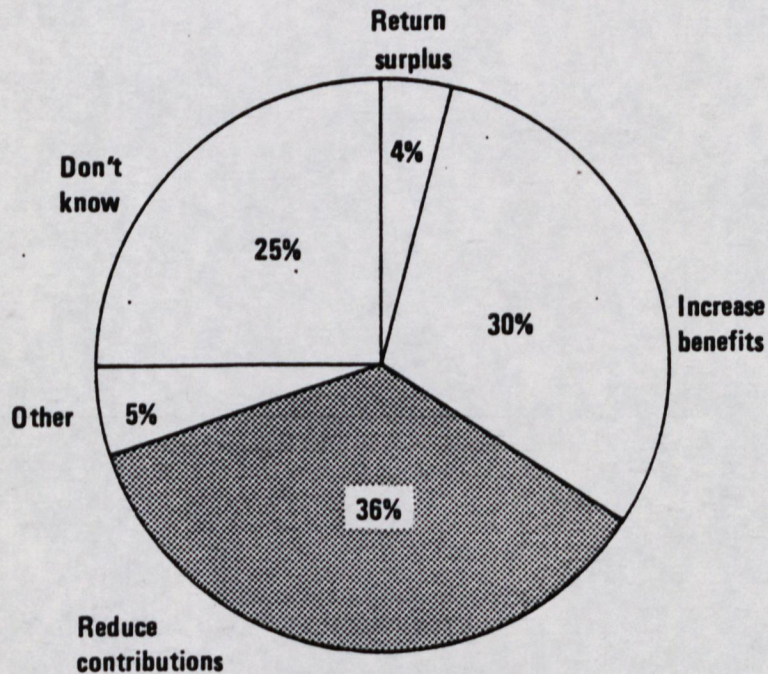


Base : All

Pension Schemes

A new tax that the Chancellor introduced was one of 40 per cent on pension fund surpluses if they are returned to the company. Few businessmen would be prepared to return any surplus and pay this tax, preferring instead to increase benefits under the scheme or reduce the contributions paid.

Q "Turning now to pension schemes. In the event that your pension scheme is overfunded, do you think you would return the surplus back to your company and pay the 40 per cent tax as proposed in the budget, would you increase the benefits under the scheme or would you reduce contributions?"

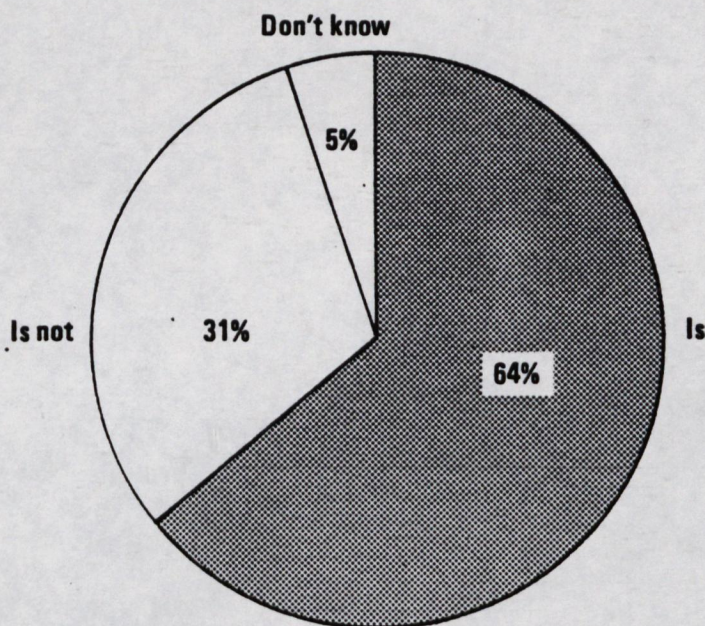


Base : All

The Government's Approach

The budget itself was well received by businessmen, but we wanted to see whether they felt the Government was actively helping businesses. The majority do feel that it is but as many as one in three do not feel that the Government is actively trying to tackle the problems that face their businesses today.

Q "Do you think that the Government is, or is not, actively trying to tackle the problems that face businesses today?"

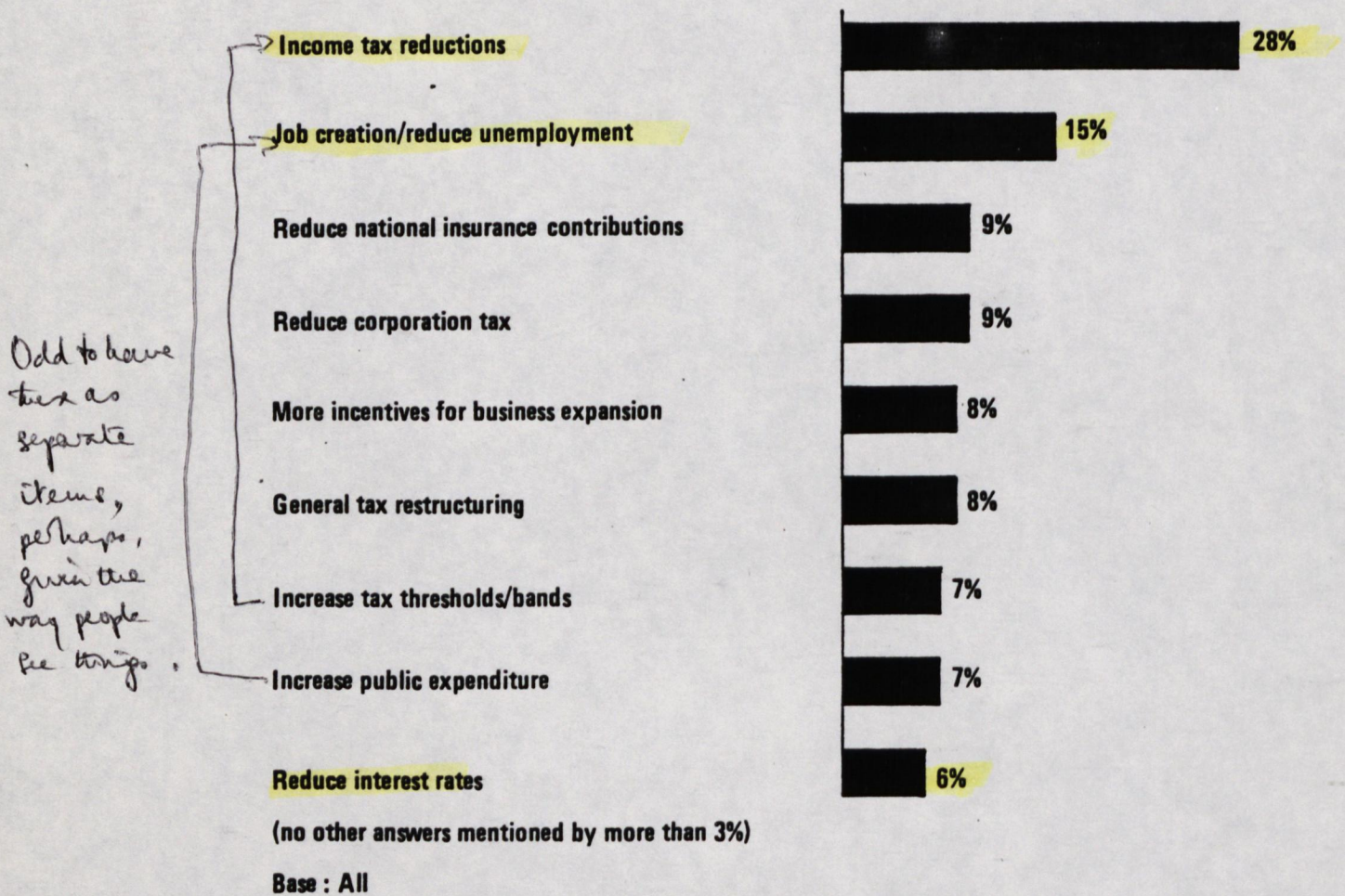


Base : All

Next Year's Budget

With this year's budget behind them, we asked businessmen what they hoped to see next year. The most favoured option was tax cuts followed some way behind by measures to reduce unemployment. Two other hopes were expressed by around one in ten, reduced national insurance contributions and reduced corporation tax.

Q "Finally, what would you like to see in next year's budget?"





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NB: THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT: BECAUSE OF THE POSSIBILITY OF MIS-HEARING AND THE DIFFICULTY, IN SOME CASES, OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

PARTY POLITICAL BROADCAST

THE BUDGET

Rt Hon ROY JENKINS MP

RECORDED FROM TRANSMISSION:

BBC 1

DATE:

Thursday 2130 20.3.86

THE RT HON ROY JENKINS MP

FINANCE SPOKESMAN, SDP/LIBERAL ALLIANCE: This Budget would be quite a good Budget if conditions in Britain today were satisfactory and the prospects were set fair. The Chancellor, broadly speaking, says they are. I say they're not. This is the core of the argument. I say they're not for two reasons; first and most obvious is the level of unemployment. The Lawson strategy involves the acceptance of this into the indefinite future. Of course - neither he nor the Prime Minister wants unemployment for its own sake. But apart from a few small measures at the edges, they are prepared to do nothing about it. They just express the hope that free markets and low inflation will spontaneously deal with the problem; they've not done so. And there's no evidence at all that they will. Inflation has come down quite a bit, although many other countries have done better still. But unemployment has gone up. It will not come down until present policies change. The Government is not going to alter these policies, therefore its approach is essentially one of accepting well over three million unemployed, and hoping that the rest of the country won't take too much notice of them. Apart from its callousness, this passing by on the other side won't work for hard headed reasons as well. Here we have three and a quarter million unemployed in what the Government claims is the fifth year of a boom. How many are we going to have when there's a turn-down? For international or other reasons; and how many more people in these circumstances are going to feel insecure about their own jobs and their children's future? And what effect is unemployment, stubborn at well over three million, easily capable of soaring beyond four million, condemning a big junk of each generation of school-leavers little prospect of a proper job, what is that going to do to the cohesion of our society, peace on our streets and to safety in our homes?

There's another hard headed consideration beyond that. Unemployment is terribly expensive. Not just in deprivation for the individual and loss of resources for the nation, but in straight cash terms for the Exchequer. Since this Government came in it has received fifty-one billion pounds in oil revenues and spent thirty-three billion of them on unemployment benefit. Now the oil is beginning to go and the price is going faster and, at the same time, the most appalling strains are appearing in our public services. The Health Service is being forced to close hospital wards; schools are in danger of becoming more of an industrial battleground than places of education. Universities are squeezed and scientific research starved. Our streets look run-down, public transport declines and our housing stock deteriorates. Without the oil, and with unemployment at its present level draining away vast billions a year, the outlook for these services which are so vital to nearly all of us, is dismal, under any Government. The present condition of Britain is therefore not such, in my view, as to justify Mr Lawson's ingenious but complacent Budget.

Continued.....

And the prospect is still worse than the present.

I've already mentioned the public expenditure aspect of this. And there's another balance which has to be struck. That is our account with the rest of the world; paying our way abroad. Oil, again, has sustained this. But under its protective but inovating shadow, our trade in manufactured goods has gone into deficit for the first time since the industrial revolution. That deficit and the derelict industrial sites of the West Midlands and elsewhere are the reverse side of the same coin. And the deficit shows signs of getting dangerously wider. Invisibles and service earnings are important. They cannot cover, without an oil surplus, the gap left by a manufacturing industry still producing less, still investing less, than in 1979. To safeguard this dangerous flank, the priority this year ought to have been to try to repair the damage done to industry in the earlier years of this Government.

Here again there is a prospect which does not remotely justify our Budget of 'steady as she goes', a Budget of a Minister of Taxation rather than of a Chancellor of the Exchequer looking to the broader strategy of the nation's needs.

Is such a broader strategy possible? Prime Minister and the Chancellor try to deny this. They are like a couple of defence lawyers who put in a plea for their client saying 'he didn't do it, but if he did it was justified'. They say their strategy is working splendidly, but if it isn't it's not their fault, because no Government can affect the economic climate or create real jobs. Is that true? Well, there are a remarkable number of people who think differently. Some of them with as least as much accumulated wisdom as Mr Lawson.

Obviously the Alliance thinks differently. It has put forward its own carefully costed Budget strategy which is estimated to reduce unemployment by at least three quarters of a million over three years at a cost to public sector borrowing of three point five billion pounds. This would concentrate on doubling the community programme, cutting employers national insurance contribution by ten percent, giving special help to those most in need, quite unlike this Budget which does nothing for the casualties of Mrs Thatcher's Britain. And securing a strong improvement in public investment - housing, roads, hospitals, railways. There are a few differences of detail, but the general thrust of this approach commands a remarkably wide measure of support across and outside politics. Two recent select committees, one of the House of Lords, one of the House of Commons agree. So do the non-Party Charter for Jobs; so does the Confederation of British Industry; so does nearly every Tory Minister who has left Mrs Thatcher's Government.

Now, of course, they may all be wrong, they may all be benevolent or stupid or irresponsible, and wisdom and sense may repose only in the head of Mr Nigel Lawson and of his few associates. But it doesn't seem very plausible. Surely it would be sensible, confronted by our present problems, not arrogantly to dismiss this wide confluence of view, but to use it as a basis for a policy which united rather than divided the nation, and offered a route of escape from our present afflictions and mounting future dilemmas.

I've so far left Mr Hattersley out of my list. He talked quite a lot of good sense last night, but I thought he marred it by announcing like a clever conjurer that he had got just the right amount of money to pay for the benefits he proposed and that was by taking back every penny of tax concession that any lucky person had received since 1979. It was the politics of tit-for-tat, of undoing everything the other side had done, carried to its mechanical extreme. And those are the politics this country has had too much of and cannot any longer afford. This is not a good Budget for the poor. The Alliance would have introduced a much fairer one, but it would not be concerned with paying off old Party scores.

The crux of the economic problem is this: unemployment, it is increasingly clear, will not be brought down without a stimulus from the Government, which this Government will not give. But a stimulus will not work without a confident response from private industry which the Labour Party's policies could not secure. The Alliance would give that stimulus and secure that response.

R. Hattersley

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PARTY POLITICAL BROADCAST

RT HON. ROY HATTERSLEY MP

RECORDED FROM TRANSMISSION:

BBC 2

DATE:

Wed. 19 March 1986

RT HON ROY HATTERSLEY MP

SHADOW CHANCELLOR: I'm not going to spend the next ten minutes in the usual Party political argument. I don't agree with what the Chancellor did yesterday and he wouldn't expect me to. I wanted a massive assault on unemployment - a million new jobs in two years. But all we got was plans for ninety thousand, not even enough to make up for the hundred and thirty thousand men and women who lost their jobs in January alone. I wanted a national campaign to help the least well off, those who have been left behind by this government, but from this Budget we got nothing to help the lowest paid, the pensioners or the families.

I wanted help for British industry; money for new investment at a price our companies could afford. What we got was a cut in stamp duty on the sale of shares. Another hand out for the people who make nothing except money.

But you already know that Labour stands for jobs, for helping the low paid and the families and for rebuilding the industries this Government has destroyed. So, instead of the usual Party arguments, I'm going to tell you how we could tackle the curse of poverty, the waste and misery of unemployment and the growing crisis of our lost manufacturing industry. That's what the Budget ought to have been about. I'm going to tell you what we would have done in a Labour Budget.

First of all something has to be done for those in our society who are least well off. Every day we read stories of pensioners who genuinely can't make ends meet. And during our last hard winter, old people actually froze to death because they couldn't afford to pay their gas and electricity bills. I know that it's difficult to believe that such things can happen in Britain in 1986 but they can and they do. And the only answer is a decent pension. That's why Labour would increase the single pension by five pounds a week, with an eight pound increase for the pensioner couple. That's what we owe to the people who have given their working life to the service of our community. Family hardship's also growing in Mrs Thatcher's Britain. Some of it, the product of rising unemployment, and some the result of disgracefully small wages earned by the lowest paid. A cut in the standard rate of income tax, which the Chancellor told us was his attempt to help the poor, will do nothing to help those families who, at best, struggle to make ends meet. A cut in the standard rate of tax favours the rich far more than it helps the rest. For example, a family earning fifty thousand pounds a year, yesterday got a tax cut of eight pounds a week. Compare that with what you are going to enjoy as a result of yesterday's Budget.

Now we want to concentrate help on the families that need it most. And the best way to do that is to match the increase in old age pensions with an increase in child benefit. We would increase child benefit by three pounds a week.

There's a third group which needs our help - the long-term unemployed. There are now nearly one and a half million men and women who have been out of work for a year or more. That's more than the full total of unemployment when Mrs Thatcher first became Prime Minister. To be out of work for a year is in itself bad enough; skills, savings, confidence, even hope gradually drains away. But long-term unemployment in Britain carries a special and unnecessary penalty. The long-term unemployed aren't paid full, supplementary benefit. Even now unemployment pay is barely enough to live on. To deny some of the unemployed full benefit is simply barbarous. To increase the pension, to improve child benefit and to offer help to the long-term unemployed would cost three and a half thousand million pounds. That's a very great deal of money. Fortunately we know where to find it. And in spite of all the promises about tax cuts, our tax bill is twenty-nine thousand million pounds a year, higher today than it was when Mrs Thatcher first became Prime Minister. Most people, nineteen out of twenty, pay more. A lucky five percent pay less. The lucky ones, the highest paid five percent, have received three and a half thousand million pounds in tax cuts. And remember the rest of the country actually pays more.

We ought not to begrudge the lucky five percent their good fortune, but we must face the problem that it causes. By giving special hand-outs to people that need them least, the Chancellor has neglected those who most need assistance.

If we are to help the families right in the bottom of the wage scale, we have to call for a greater contribution from the people at the top. I'd then use the extra three and a half thousand million pounds to help those most in need. To give a five pound increase to the single pensioner and an eight pound increase to the pensioner couple; a three pound increase in child benefit, and help to the long term unemployed. Now if you think that's wrong let me ask you a simple question.

Many pensioners can't afford the basic necessity of life. We have to make a choice; which is the most important? Tax cuts for those at the top, or a little extra money for our old people? We choose to help the pensioners.

The second theme of Labour's Budget is putting Britain back to work, creating as I repeat we can create, about one million new jobs in the first two years of a Labour Government. I don't pretend that's anything except a major task. Under this Government unemployment has more than doubled. From just over one million to three and a half million. That is one graph that the Chancellor didn't show you in his broadcast last night. But we know how jobs can be created. We must invest in new and improved housing. We must rebuild our schools and hospitals. We must mend roads and improve the efficiency of our railways. All this work is desperately needed and it creates jobs.

There's an equally desperate need to extend and expand the caring services, such as nursing and help for the community as a whole. Every new job there solves two problems. It helps us all and it cuts unemployment. And we ought to give an incentive to industry, an incentive to employ more people by reducing costs through a cut in the national insurance contribution. And as well as that, we ought to institute the special programme that would provide jobs for all the long term unemployed.

Taking all those things together we can cut unemployment by something like one million in two years.

Our programme for putting Britain back to work costs money. Of course it does. But it is money well spent, for unemployment is not only a social scandal, it actually costs us twenty one thousand million pounds a year in taxes lost to the treasury and benefits the Government has to pay to the unemployed. It also costs thirty billion pounds in lost production.

I think we all know what we ought to do. For there's a time in the life of an economy, as there is in the life of a company or family when it is prudent to borrow money and invest in the future. Many of you will have taken such a decision about your own homes. When you decided that taking out a mortgage was more sensible than going on paying rent. Many of you who work in factories will have seen them grow more prosperous because they've borrowed to invest in new plant and machinery. Now the time has come for Britain to do the same. It's the rule followed by our more successful competitors, and by Britain in the past. Because we all know that if you borrow prudently you grow, you expand and you prosper.

What Labour would have put into its Budget offers new hope for Britain, hope for families, hope for the unemployed, hope for industry; and it offers hope for all the people who want to see a more prosperous country in which the increased wealth is more equally shared. That's what the Budget ought to have been about - charting the country's course for the next year and for the years to follow. Yesterday we didn't have such a Budget. We had a Budget for only some of the people; for men and women with two hundred pounds a month to spend on shares; for families who want to manipulate their estates in order to avoid death duty, and for the stock brokers who went wild with delight to hear that the taxes on their share deals had been cut in half.

We believe that the people in Britain want something better than that. The families in work want jobs for the unemployed, and the comfortably off want to help the lowest paid. More than that, we all want to avoid the turmoil and resentment that comes from a divided society. We need to unite, not divide our nation and our Budget, the Labour Budget, would help to build that united Britain.