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PART E

BUDGET SPEECH 1983
EIGHTH DRAFT

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PART E

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FROM: J O KERR
DATE: 10 March 1983

MR KEMP

Sir D. Wass

cc. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
~~Sir Douglas Wass~~
Sir Anthony Rawlinson
Mr Burns
~~Mr Littler~~
Mr Middleton
~~Mr Bailey~~
Mr Cassell
Mr Kemp ~~Mr Hall~~
Mr Moore
Mr Allen
~~Mr Norgrove~~
Mr Ridley
Mr Harris Mr Harris
~~Mr French~~
Sir Lawrence Airey - IR
Mr Fraser - C&E

BUDGET SPEECH - ~~SEVENTH~~ EIGHTH DRAFT

I attach a copy of the eighth ~~The Chancellor was grateful for comments on the sixth~~ draft of the Budget speech. ~~I now attach the seventh draft, and~~ would welcome any further reactions by 10.00am on 11 March. The key changes are insertions H (paras 3 and 9), I and Q.

~~2. Copies of each section are already being cleared at working level. And the problems posed by section I are being considered separately.~~ Further changes on section H here

2. The Chancellor will be doing further work on the speech over the week-end; a final draft will be circulated early on Monday

J M Rutter

pp J O KERR

BUDGET SECRET

BUDGET SPEECH: SEVENTH DRAFT

BLOCK A: OPENING

1. The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately 4¾ hrs. The then Leader of the Opposition said of the speech: "... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course, but I can assure you that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. I mean the shortest of the first five. And that will not be its only attractive feature.

2. I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

3. This Budget will develop and build on the themes which have been the foundation of this Government's approach to the economy since we took office in 1979.

4. The requirement we then saw, and the country accepted, was for resolve, for purpose and for continuity. My proposals this afternoon are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to sustain and advance economic recovery, and to further the living standards and employment opportunities of all our people.

BLOCK B: WORLD ECONOMY

1. Already by 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent that that fresh start would have to be made in an international setting that was profoundly and increasingly unhelpful, as the effects of the second oil price shock hit home.

2. Last year output and world trade were lower than generally expected. In the major industrial economies output actually fell. And more than 30 million of their people were unemployed.

3. Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports. And that has amplified the fall in world trade.

4. Now, however, there are signs that the worst of the problems of the world economy are beginning to abate.

5. Oil prices have weakened. For the world as a whole this means lower inflation, and hence an encouragement to increased activity.

6. More important still, there are clear signs that the world is breaking the inflationary habits of the 1970s. In many countries in the past year the rate of increase in prices has fallen more steeply than expected.

7. At the same time, interest rates have declined substantially almost everywhere, including, of course, here. In the United States, 3-month interest rates have almost halved from last summer's peaks, though real interest rates remain high.

8. Looking ahead, 1983 should see recovery in the major economies gathering pace as the year goes on. This should be accompanied by a recovery of world trade.

9. However we cannot expect a year of trouble-free progress. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries has to be encouraged, and world recovery nurtured and sustained.

10. There is a major task here for the international financial institutions, which deserve - indeed require - our full support. The need is not for blue-prints for new institutions, but for increased commitment - political and financial - to the existing ones.

11. That is why as Chairman of the Interim Committee of the International Monetary Fund, I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund for lending to countries in difficulty. And why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments - including this House . But their effect should be substantially to increase the usable resources at the Fund's disposal; and I hope that the House will share my view that this is a wholly welcome development.

12. The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits no-one, continues to grow. The efforts of the US Administration to cut back its daunting structural deficit are crucial to the prospects for interest rates and future inflation, and hence recovery prospects, for us all.

13. It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. A paradox indeed: and in truth nothing could be more dangerous for recovery. The days when Governments by spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven years ago.

14. Lower inflation and lower interest rates are themselves the right foundations for economic recovery, a recovery which will be healthy and sustainable. They reduce costs and provide room and encouragement, within prudent fiscal and monetary objectives, for greater real growth of activity.

15. And the prospect now is for just such a recovery. It will be gradual, but it should be steady, provided that anti-inflationary gains are not thrown away. And the international consensus is that they must not be thrown away.

16. This is the heart of the strategy agreed at last year's Versailles Summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will: but it is backed by a broad measure of international commitment on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.

BLOCK C: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

2. Government spending is being restrained. The public sector deficit, as a percentage of our domestic product, is now one of the smallest in the industrialised world. Monetary growth is towards the middle of the 8-12 per cent target range. And inflation, at 5 per cent, is lower than at any time since 1970.

3. Last year we saw a surplus on our balance of payments current account of some £4 billion. In 1983 too we now expect a significant surplus. Total official external debt now stands at around $12 billion, compared with $22 billion when we took office, and is smaller in relation to Britain's trade than at any time since the second World War.

4. In our own economy domestic demand has been growing - at some 2-3 per cent a year in real terms -since the spring of 1981. This is a considerably stronger growth of demand than in most other industrial countries. Indeed, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand

and some further rise in our imports, total output in this country increased last year by only ½ per cent. But, while we expect domestic demand to grow by over 3 per cent this year, output is forecast to rise by some 2 per cent, which is likely to be in line with, or a little faster than, the projected growth in world output.

5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over this year.

6. The 1½ per cent rise in consumers' expenditure betwen the third and fourth quarters of last year was reflected in improved output performance in the consumer goods industries. Improvements have also been recorded in the electrical engineering industry. And order books and business confidence, in manufacturing industry generally, are rising.

7. Other sectors too are showing clear signs of further improvement . The construction industry's orders and output are rising steadily. Housing starts in the three months to January rose by over 13 per cent on the previous three months. Between the third and fourth quarters of 1982 output in the distribution and service sectors increased by 2 per cent, and motor trading activity rose by 9 per cent. This evidence of recovery should be welcomed by all in this House.

BLOCK D: UNEMPLOYMENT

1. Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

2. Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to the taxpayer.

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long recession. These special employment and training measures will next year bring direct help to more than 650 thousand people, at a cost of about £2 billion.

4. There are four ways in which we now propose to extend this help.

5. In the first place, some 75,000 men between the ages of 60 and 65 are now required to register at an unemployment benefit office, simply to secure contribution credits to protect their pension rights when they reach 65. From April, they will no longer be required to do this. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

6. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify for the higher long-term rate of benefit. From 1 June they will qualify for the higher rate as soon as they come onto supplementary benefit. They will in effect be treated as if they had already reached retirement age.

7. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else who wants a job. I can now announce a new scheme for part-time job release. It will apply to the same categories of older people who are willing to give up at least half their standard working week so that someone else can be taken on for the

remaining half. The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October and should provide part-time job opportunities for up to 40,000 more people who are at present unemployed.

8. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in January 1982, and I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1983-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

9. The gross cost of these four measures is estimated at £55 million in 1983-84 and £100 million in 1984-85. The net public expenditure cost will be much less than this - some £40 million in 1983-84 and £55 million in 1984-85.

10. These new measures will build on this Government's earlier initatives to help the unemployed, notably the

Youth Training Scheme, providing 12 months training to almost half a million young people each year. And the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of Special Employment Measures.

11. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. As my rt hon Friend the Secretary of State for Social Services said when the House last considered the issue, the Government accepted in principle the case for restoration of the abatement. It is right now to redeem that pledge. In the uprating that takes place in November this year the abatement of unemployment benefit will be restored in full.

BLOCK E: INFLATION

1. But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. And we must look for a larger share of rising demand -demand that is rising in Britain as well as overseas - to be translated into British output and British jobs.

2. Progress on inflation is crucial to the prospects of higher output and lower unemployment. Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country; and it is widely recognised that it results from the firmness and consistency of the policies we have pursued in the past four years.

3. We shall not change course. Downward pressure on inflation will be maintained. With the fall in the exchange rate some check in our progress now is unavoidable. In the fourth quarter of this year inflation in retail prices may temporarily be running at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. And it seems likely that the

GDP deflator - which is a measure of [cost increases generated at home] [prices across the whole economy] - will show a continuing fall from 7 per cent in 1982-83 to 5½ per cent next year.

4. High inflation destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

5. Lower inflation will expand real demand, provided we hold to the MTFS. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And low inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

7. Lower inflation and interest rates also ease the burden of mortgage interest, helping house buyers and in turn house building.

8. With lower inflation the cash programmes of the public sector buy more real goods and services.

9. Lower inflation and interest rates have contributed to the fairly strong growth in demand in the British economy over the past two years. Demand in overseas markets has of course remained weak. Now that world inflation is much lower the level of world demand too should rise over the next year. With continued success against inflation we should see a revival of markets abroad as well as continued growth of markets at home.

10. Low inflation here provides the right framework for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

11. Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that the Government will not finance higher inflation, has done much - though still not enough -to bring commonsense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more widely understood. So too is the case for higher productivity, which over the last two years, has improved in manufacturing industry by some 13 per cent.

12. More moderate pay settlements, combined with improved productivity are two of the reasons why last year, in a shrinking world market, British manufacturers succeeded in enlarging their market share. There is some way to go. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

13. And provided we go on achieving success against inflation. Today's unemployment was fostered by long years of high inflation. And by failure to tackle it soon enough. And by failure to keep up the fight. We shall not make those mistakes.

14. The trend of rising inflation that has appeared irresistible in recent years has now been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.

BLOCK F: MONETARY POLICY

1. One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad; and it was, of course, and rightly so, a pillar of the last Government's counter-inflation policy, however much they may deny it now.

2. In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, - always an alluring document, but now in even more readable format to match the Autumn Statement - includes a full discussion of these matters. I shall summarise it only briefly now.

3. Since the last Budget, financial conditions have developed much as envisaged. In the year to February, the growth of all three target aggregates was within the target range of 8-12 per cent. Other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained positive throughout the year.

4. But with the satisfactory development of financial conditions and rapid progress in reducing inflation a significant fall in interest rates was possible. By mid November, short term rates had fallen to 9 per cent. They subsequently moved up to around 11 per cent, but they are still very substantially below the 16 per cent of November 1981.

5. For most of the year the exchange rate was strong. The weakening in November and December seemed mainly to reflect external factors such as concern about oil prices and sharp movements in the world's other major currencies. Opposition statements and election uncertainties may have also played a part in currency movements, here and abroad.

6. But what is certain is that laxity in the Government's financial policy played no part. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation from the fall that has taken place.

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, the fall in

the exchange rate would bring only a temporary improvement to our competitive position. It would offer no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

8. That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It would be a signal to the world of a willingness to accommodate rising inflation - an inflation that would undoubtedly be fuelled by demands for higher wages to offset its effects. Confidence would collapse. And jobs would be destroyed.

9. That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8-12 per cent in 1982-83, a target of 7-11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7-11 per cent. Once again it will apply to both broad and narrow measures of money, though, as I said last year, M1 may for a time grow rather faster than indicated by the range. Given the prospect for inflation this range gives scope for a healthy rise in output.

10. The establishment of the Medium Term Financial Strategy has been more than justified by its value as a

framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy.

11. We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

12. The Department for National Savings is close to achieving this year's target of £3 billion. For the coming year, I am again setting a target of £3 billion. Nearly £2 billion worth of indexed gilts have been issued over the past year and it has been possible to dispense almost completely with long term fixed interest stocks, which has helped bring long rates down very nearly as much as short rates.

BLOCK G: PUBLIC SECTOR BORROWING

1. Control of money needs to be supported by firm control of public sector borrowing. Otherwise the result is to push up interest rates, and create strains that sooner or later prove intolerable. Other countries understand this. All too many have had to learn the hard way. [This country has been no exception.]

2. A substantial reduction in public sector borrowing over the medium term is a necessary part of the process of reducing inflation. We have made good progress. During the latter half of the 1970s, public borrowing represented, on average, about 6 per cent of Gross Domestic Product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP.

3. For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The latest estimate suggests that the outturn may be around £8 billion - or 3 per cent of GDP - not least because oil revenues have been very substantially larger than expected. However, the year is not yet over, and there are still large sums on the expenditure side yet to be spent, and on the revenue side - which has proved very

buoyant in recent weeks - to be collected. So this year's outturn figure is still subject to a considerable margin of error.

4. For 1983-84 last year's Budget Statement suggested a PSBR of 2¾ per cent of GDP as consistent with the desired trend to lower borrowing. That is equivalent to £8 billion at the level of money GDP now forecast. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and of the main uncertainties which now confront us. On interest rate grounds, there is a clear case for continued fiscal restraint. Interest rates, though lower than they were, are still undesirably high both in nominal and in real terms. The fact that the exchange rate has now moved to a lower level eases the financial pressures on companies. At the same time it is important not to offset the easing of fiscal and monetary conditions that lower inflation produces within the financial framework we have set.

5. I have also had to consider the implications of the recent fall in oil prices and the continuing uncertainty about future oil prices. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These falls are to be welcomed. It is worth recalling that in 1979-80 the world price of oil rose by more than 2½ times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.

6. Of course a fall in the oil price reduces the value of our own oil production. But oil accounts for only 5 per cent of our National Income; and the health of a much larger part of our national economy depends on the state of the world economy. Lower oil prices and lower inflation abroad means lower prices here. A more prosperous world will in time mean more output and jobs in Britain.

7. But, on the strictly budgetary front, a further cut in oil prices could affect the balance of revenue and expenditure, and I have to take this into account. Up to a point it would be right to let the public sector deficit absorb the effects of the lower prices. Enhanced international demand, and reduced costs at home, should reduce corporate borrowing; which should make it possible to accommodate a larger PSBR without upward pressure on interest rates or money supply. It would plainly be wrong, as well as impractical, to react to every change in the oil market by changing taxes. Nonetheless, if any further reduction in oil prices seemed likely to compromise the success of our economic strategy, I would be ready to take appropriate corrective action.

8. Taking these factors into account, I have decided to hold to the previous plan, and provide for a PSBR in 1983-84 of $2\frac{3}{4}$ per cent of GDP, that is £8 billion. This will mean a further reduction in the real burden of Government borrowing.

9. Last autumn, I announced measures costing around £1 billion on the PSBR in 1983-84. Three quarters of this was directed to reducing the burden on private industry and commerce including a cut in the National Insurance Surcharge.

10. After allowing for that, and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a cost to the PSBR of some £1½ billion. That is therefore the scale of my proposals this afternoon.

11. The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is, of course, no certainty about the precise figures. But they show how lower borrowing can be combined with lower taxes, and reductions in inflation and interest rates. As was indeed illustrated by my last Budget, and its practical effects.

BLOCK H: PUBLIC EXPENDITURE

1. Central to the restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

2. The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP has been reduced from 44½ per cent in 1981-82 to a planned 43½ per cent in 1983-84. This ratio is the measure of the burden which public expenditure places on the rest of the economy. That burden is now being reduced.

3. In working to get and keep public spending down we have been helped by another important institutional innovation which we have introduced: cash planning. Improved control of expenditure has been an essential factor in making possible the tax reductions I am announcing today.

4. I shall also be announcing additions to certain public spending programmes; but they will all be met from the

Contingency Reserve; and so will not add to the planned total of expenditure.

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. This represents a saving this year of around £590 million in the Civil Service pay bill. We are on course for a further reduction to 630,000 by April 1984 - the target we set ourselves on taking office, and which some thought unattainable.

BUDGET CONFIDENTIAL

BLOCK I: SOCIAL SECURITY (VERSION A)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. It is traditional for Chancellors to announce at Budget time the Government's intentions for the social security uprating in the next November. I propose to follow this tradition, but with a difference. With one exception, which I shall come to later, I shall not today announce particular rates for any benefits. This is why.

3. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

4. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision, which was made good the following year, of 2 per cent. Last year's uprating included an over-provision of about 2.7 per cent because inflation fell faster than expected. The result is

confusing and uncertain for all concerned, and there have been many representations from pensioners that it would be better to return to the more certain historic or actual method, under which upratings were based on actual past inflation.

5. We have therefore decided that we shall, from this November, return to the actual method. The November 1983 uprating will be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

6. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4 4½ per cent. The uprating will be based on whatever the figure actually is, and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

7. As compared with a continuation of the previous method, it seems likely - depending on the precise figure

for inflation in May - that benefits generally will be increased by significantly more than would have been the case had an adjustment been made to take account of the full amount of the over-provision in November 1982 as would have happened under the old system. In the [5] years since this Government was elected prices [will] have risen by about 70 per cent. Over the same period pensions [will] have risen by about 75 per cent. So our pledge to maintain the value of the pension over this Parliament's lifetime will have been more than fulfilled.

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION B)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. From the time that this Government was elected it has been our pledge to ensure that the value of the pension should be at least maintained. In fact we have done a good deal better than that. We have increased pensions by 68 per cent; that is 7 per cent more than the increase in prices over the period, and 10 per cent more than the increase in the pensioners index.

3. The House will be expecting me today to announce an increase in pensions from next November in line with the increase in inflation which we expect then, abated by the 2.7 per cent by which we over-provided for inflation last November. I propose to adopt a method which is likely to give a somewhat larger increase to the pensioners this year and will also provide a much more satisfactory basis for increasing pensions in the future.

4. As the House knows, since 1976 the annual adjustment has been calculated on necessarily fallible forecasts of inflation. There have been years when prices

have been under-estimated, as in 1981, - when a 2 per cent under provision was made good the following year - and others, such as 1982, when pensioners have had a windfall. Given the length of time it takes to rearrange entitlements, there has always been a year's delay before the error of the previous year can be put right. When inflation is rising faster than expected, the beneficiaries inevitably lose out meantime. When, as now, it's fallen faster than expected, they gain, with an advance payment of part of the increase due in the following year.

5. The over-provision last November was no less than 2.7 per cent. Some have claimed that we proposed to "claw back" this money from pensioners: not so, as we made clear in the autumn, we envisaged only that the 1983 uprating would be abated by the amount of the 1982 over-provision.

6. But the system of trying to forecast what's to happen to prices is a fragile basis for calculations of such importance to millions of our fellow-citizens. I have had many representations urging me to restore the more certain system that prevailed until the Party opposite withdrew it back in 1975: the system whereby benefits were calculated on what had happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. So this year's uprating will be calculated by reference to the rise in prices in the year to May - the last date which we can take and still make sure recipients get their adjusted benefits on time in November. I can't predict precisely what the resulting figures will show. [But it is expected to be in the region of 4 to 4½ per cent.] [But] what is certain is that we shall continue to more than fulfill our pledge to maintain the value of the pension over the lifetime of this Parliament. [Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent.]

BUDGET SECRET

BLOCK I: SOCIAL SECURITY (VERSION C)

1. Much the biggest single element in public expenditure - more than one quarter of the total - is of course social security, to which I now turn.

2. There are two central issues with which I wish to deal now.

3. The first is the treatment of the so-called overshoot in last year's uprating of social security benefits. Because at Budget time in 1982 we assumed that prices would by November rise some $2\frac{3}{4}$ per cent more than they did, the present level of benefits is that amount higher. It amounts to an unplanned "bonus" to beneficiaries of some £[805] million in a full year.

4. To build on this overpayment in future years would be very costly, and would involve yet higher increases and levels of social security contributions hereafter. This would rule out a number of smaller but extremely important improvements which need to be made now in the social security system. There would be no money left for them.

5. So there can be no question of leaving the whole of the £[800] million overshoot in place. But we have concluded that some of it can be left. The measures I am about to propose will involve a continuing "bonus", or excess of spending above the price-protected levels, to which we are committed, which could amount to some £[280] million a year or more.

6. The second central issue is the method by which upratings of social security are made.

7. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

8. But this method has not worked properly. Forecasts of inflation are by their nature uncertain. This leads to increases larger or smaller than intended. In 1981 there was an under-provision of 2 per cent. Last year's uprating included the over-provision of about 2.7 per cent because inflation fell faster than expected. The result is confusing and uncertain for all concerned, and will in all probability be a source of continuing criticism and controversy even as inflation returns to more modest levels.

9. There have been many representations from pensioners, HMs and others that it would be better to return to the reliable historic or actual method under which upratings are based on actual past inflation. We criticised the last Administration when they chose - in order to save money - to move to the forecast method. We pointed out its unreliability. Only by reverting to the actual method can we recreate the certainty the pensioner and other social security beneficiaries seek about future benefit levels, and banish the controversy which now comes to surround every up-rating.

10. The November 1983 uprating will therefore be based on the figure for inflation in the year to May 1983, which will be available on 17 June. That month has been chosen because it is the latest possible if the necessary Parliamentary and administrative steps are to be completed in time for all beneficiaries to receive the increase in November. The necessary legislation will be introduced immediately.

11. Clearly we cannot give precise figures for next November's uprating until the May inflation figure is published. But it is expected to be in the region of 4-4½ per cent. Benefits which are regularly uprated on the same basis will also be increased by whatever the figure actually is and no less. Statutorily linked public service pensions will be increased in November by the same percentage. For unemployment benefit this increase will

of course be in addition to the restoration of the 5 per cent abatement which I have already mentioned. I shall come to child benefit in a moment.

12. Between the upratings of November 1978 and November 1983 prices will have risen by some 70 per cent, but pensions by some 75 per cent. Our pledge to maintain the value of the pension over the lifetime of this Parliament will have been more than fulfilled.

BUDGET SECRET

BLOCK J: CHILD BENEFIT

1. The social security provision which is most important to working families with low incomes, is Child Benefit. It plays a vital part in action to alleviate the unemployment trap and so in our strategy of improving incentives for everyone.

2. For this reason I am glad to be able to tell the House that from November 1983 the rate will be increased by 11 per cent to £6.50. One parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast this will take the real value of Child Benefit above its level in April 1979. It will in fact be worth more than ever before.

BLOCK K: OTHER BENEFITS, AND CHARITIES

1. But this Government also gives special priority to help for the sick and the elderly, and for widows. I am proposing further measures to increase that help.

2. In my first Budget I exempted from tax war widow's pensions and widow's child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However, because their income in that year is already covered by other allowances, about four out of five newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well. At a cost of some £30 million in a full year. The number of widows benefiting from the bereavement allowance will more than double.

3. We also intend to provide significant new help for about 70,000 invalidity pensioners. Until now this vulnerable section of our society has, through the so-called "invalidity trap", been excluded from receiving the long term rate of supplementary benefit. I am glad to be able to tell the House that we intend to amend the regulations so that people who have been on incapacity

benefits for a year will qualify for the long term rate. This will get rid of the so-called invalidity trap. And quite right too.

4. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced. And we shall increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

5. We also propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their traditional preference over civilian benefits.

6. These measures, taken together with the increase in child benefit and one parent benefit, the relaxation of the abatement of unemployment benefit, and the extension of long-term supplementary benefit will add £123 million to the social security programme in 1983-84 and £305 million in 1984-85. The 1983-84 cost will be met from the Contingency Reserve.

7. But caring means more than cash. Many of the key needs, for example, of the elderly, are met by voluntary groups and charities. If they are to do all they can, we must help the helpers.

8. Once again we have been pressed to reimburse charities for VAT on their taxable purchases. But, however exhaustively and sympathetically we examine this proposal, the difficulties remain and cannot be swept aside. We have of course been able to extend VAT reliefs for the disabled and charities servicing them. But a VAT refund scheme would be expensive to operate and indiscriminate in its effects, benefiting not only those charities who do valuable work in the community but also - and sometimes disporportionately so - many other bodies with very limited or controversial aims which do not command public support. So, as before, I have been forced to conclude that we are right to channel our help in other ways.

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of

covenant and by abolishing outright the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be entirely free from CTT.

10. I have had representations about the position of companies who would like to second their staff with pay, to charities. At present the employee's salary is not allowable for tax because it is not an expense incurred by the company wholly and exclusively for the purpose of its business. For normal business expenses we must continue to stick to that general principle. But I am satisfied that it is right to make an exception in this limited case, so that the tax rules do not hinder valuable gifts of skills and experience. Companies which lend staff to work for charities and continue to pay their salaries will now be able to treat the cost as an allowable expense for tax purposes.

BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION

1. I come now to housing and the construction industry. The whole House is, I know, anxious to see more done in this direction. Within the public expenditure plans there is provision for expenditure on construction in 1983-84 of over £10 billion, a 10 per cent increase on the previous year's expected outturn. We want this money used for the purpose for which it is intended. To help with this we shall be making certain changes in the rules.

2. One of our highest priorities has always been the extension of home-ownership. This Government has done more than any other to encourage this. Since we came to office almost ½ million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first time buyers to meet the costs of a mortgage.

3. But it is now clear that the £25,000 limit on mortgage interest tax relief is beginning to hinder a growing number of families who want to buy their first home. I have therefore decided to increase the limit to £30,000. This will cost some £50 million in 1983-84 and £60 million in a full year: it will help potential homeowners and the construction industry alike. At the

same time I intend to remove an anomaly whereby a borrower may get tax relief in excess of the ceiling for both an ordinary mortgage and an interest free loan from his employer.

4. I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent them living in their own homes, to self employed people, like tenant farmers and tenant licensees, who have a contractual requirement to live in accommodation provided for them but who are also buying their own homes. This will be accompanied by a similar extension of the capital gains tax relief applying to a private residence.

5. [Let me explain that I am not, by this relief to tenant licensees, widening the scope of Government policy to transfer public housing to private ownership. Some Public Houses have their attractions. My aim is simply to help tenant inn-keepers buying their own homes elsewhere.]

6. We want to help people not only to own their own homes but also to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grant. This has proved very successful indeed. Expenditure in 1982-83 will be twice that in 1981-82 and a further increase is expected this year.

7. We have already announced that the higher rates are to continue until the end of 1983-84. And local authorities have already been told they may spend without limit on all improvement grants next year. To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20 per cent.

8. Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the Inner Cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping - where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and I propose now to make £50 million additional resources available to local authorities for all approved enveloping schemes to be undertaken during 1983-84.

9. These two measures are likely to lead to additional expenditure of some £60 million in 1983-84. In addition my RHF the Secretary of State for the Environment is today announcing further measures to encourage local authorities to make full use of the resources available to them for capital investment.

10. I myself can announce three further steps to help the construction industry.

11. First, in 1981 I introduced a scheme to defer Development Land Tax on developments for the owners' own use. The scheme, which is due to end in April 1984, has proved valuable. I propose, therefore, to extend it to April 1986, at a cost of some £4 million in a full year.

12. Secondly, stock relief will from today be available for houses accepted by builders in part exchange on the sale of a new house for the personal use of an individual or his family. This reflects current developments in the industry and will cost £5 million in a full year.

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance - which I increased in 1981.

14. Coming on top of measures in my last three Budgets providing help - including substantial relief on Stamp Duty -worth some £350 million in a full year, the cumulative effect of the new measures I have announced should give a substantial boost to the construction industry. Some of them, on their own, might seem small beer, though not to inn-keepers.

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the excise duties and other indirect taxes.

2. I propose no change in the present rate of VAT.

3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.

4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.

5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7

pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

6. As for tobacco, I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco which is of particular interest to pensioners. These changes will take effect from midnight, Thursday.

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon or [0.9p a litre,] including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon [or under 0.7p a litre]. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

8. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. The real burden of this duty will thus have been reduced since 1980 by some 20 per cent. This will be of considerable continuing

assistance to industry, since it will help to hold down its energy costs.

9. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.

BLOCK N: NORTH SEA OIL REGIME

1. I come now to North Sea tax. The development of the North Sea is an achievement of private enterprise and the result of a huge co-operative effort involving hundreds of companies and thousands of people. We want this to continue, despite changes in oilfield economics. Tax is not the only factor. Steps taken by the industry to cut costs, and the future level of oil prices, will be at least as important. But the fiscal regime must adapt as well.

2. I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, together with a package of relief on current fields to help finance new developments which will be worth more than £800 million over the next 4 years, starting with £115 million in 1983-84.

3. To encourage further exploration and appraisal, I propose immediate relief against Petroleum Revenue Tax for expenditure incurred after today in searching for oil and appraising discovered reserves.

4. For future fields I propose two important new incentives. First, the oil allowance will be doubled for

them. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to abolish royalties for such fields. These changes will apply to future fields where development consent has been given on or after 1 April 1982, with the exception of the relatively more profitable Southern Basin and onshore fields. I am ready to discuss with the industry whether there is a need to extend these incentives to the Southern Basin fields. If I were to be persuaded of the need, any extension would be backdated to development consents issued after today.

5. Most existing fields make good profits. But to improve current cash flow, I have decided progressively to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to 15 per cent from 1 July, and APRT will disappear completely by the end of 1986.

6. An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. They include, following the Consultative Document published last May, proposals on PRT reliefs for expenditure on shared assets such as pipelines, and for charging related receipts. The proposals will give significant additional relief on expenditure and will exempt tariffs on half a million tonnes of oil a year from each field using a pipeline. This will encourage the shared use of these assets.

7. I believe that my proposals will provide the industry with the right fiscal incentives for a further phase of successful development of the country's North Sea resources.

BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS

1. From one key industry I turn now to business and industry as a whole. Our living standards and jobs depend on our ability to sell and compete, producing the right goods and services at the right time and the right price. The main responsibility for achieving this lies with industry and commerce. But Government can help by reducing the burdens it places on business.

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. That has been put right. But Government also imposes direct burdens on business, and here too we have acted to help cut costs. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs first introduced and then increased by our Labour predecessors.

3. [I suppose that, to be scrupulously fair, I ought in fact to point out that NIS was a child of the Lib/Lab pact of 1977. A child of unmarried parents, in short - so I'm not sure what I should call it. What is clear is that, though there have since been some changes of partners, none of the parties on the benches opposite can deny responsibility for it.]

4. In last year's Budget I cut NIS from 3½ per cent to 2½ per cent. In November I announced that, for 1983-84, the rate would be further cut to 1½ per cent. On top of this I made special arrangements to enable half of that cut of 1 per cent to be brought forward into 1982-83.

5. I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £220 million in 1983-84 and nearly £400 million in a full year.

6. The surcharge was 3½ per cent when this government took office. We are now well on the way to abolishing it. The reduction from 3½ per cent to one per cent will be worth nearly £2 billion to private business in a full year.

7. On Corporation Tax, a Green Paper was issued over a year ago. I am grateful for the many thoughtful responses. They raise a wide range of issues which call for careful examination. Some would benefit from further consultation. But there is one impression that stands out.

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the

broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

9. Some other issues, discussed in the Green Paper, do however need to be considered today.

10. At present, advance corporation tax can be carried back two years to be set against corporation tax. I propose to extend this over a period to six years. I also propose that the incidental business costs of issuing acceptance credits and of issuing certain convertible loan stocks should be allowable expenses for corporation tax purposes. There are other areas where we need to make more progress, including the tax treatment of groups and capital allowances for the mining industry. I am authorising the Inland Revenue to look further at these issues, and to consult on them where necessary.

11. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

12. On tax havens, however, I propose to move clauses which take account of the recent consultations. These will not come into effect until April 1984.

13. This change should be considered alongside one other proposal that flows from the Corporation Tax Green Paper. At present credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. As a result of representations received in response to the Green Paper, I propose that from April 1984 this double tax relief should be allowed against the full corporation tax liability before ACT is deducted.

14. As I have said, my proposals on tax havens and these proposed changes on ACT and double tax relief have to be seen together. Between them they will not involve any increase in the total burden of tax on international business. But they do mean a switch in the tax burden away from those who remit profits home and towards those who accumulate surplus cash balances in tax havens overseas. I am sure the House will agree that this is right.

15. Each year I announce the future scale rates for measuring the benefits from company cars which are still substantial. Recent increases have been at a rate of 20 per cent. This year I propose that with effect from April 1984 the scales for both car and car fuel benefits should be increased by 15 per cent.

16. I have also decided to legislate to bring into tax from the next academic year the benefit from

scholarships provided by employers for the children of their higher paid employees. [Additional sentence on timing.]

17. I propose too to remove an anomaly by which some higher paid employees have their tax bills artificially reduced because their employers do not account for PAYE at the right time and then pay over too little. I also propose with effect from April 1984 to increase substantially the estimate for tax purposes of the benefit gained by an employee who occupies rent-free or at a very low rent expensive accommodation owned by his employer.

18. The House will be aware of instances of tax avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose legislation to deal with these abuses and also to improve the arrangements for collecting DLT on disposals by non-residents.

19. And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and I am still not convinced that it is entirely satisfactory. But the conclusions to which this might normally have led have to be tempered by the international and domestic pressures on the banking

system. UK banks are certainly in a stronger position to deal with these pressures than are banks in some other countries. But it would still not be sensible to take action which might now weaken them. I have therefore concluded that there should be no changes this year in the tax regime for banks.

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.

21. When this Government came into office the marginal rate stood at just over 66 per cent. The changes that I am proposing today will bring it down to 55½ per cent - only a little above the main 52 per cent rate. These changes will concentrate the help that I can give on the many small and medium-sized enterprises with taxable profits of up to £½ million.

22. The cost of this Corporation Tax change will be £40 million in 1983-84 and £70 million in 1984-85.

BLOCK P: ENTERPRISE

1. Small and medium sized enterprises are indeed a major source of new wealth for the nation and, above all, of new jobs. I shall, therefore, propose today a series of measures which will foster their growth, greatly extending the measures I have already introduced, and whose results are already evident. Britain is now said to offer a more attractive tax environment than Germany for venture capital and for the micro-electronics revolution. This was not so five years ago.

2. I now propose further action in a number of areas.

3. I want more people to share in the ownership of the companies for which they work. It is both a good incentive and a good way for people to build up a capital stake. The measures so far introduced have already brought us to the position where a quarter of a million employees receive shares each year.

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value of 10 per cent of their salary, up to a maximum of £5000. This new freedom will provide still further encouragement to management, upon whom so much depends.

5. Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the instalment period from three years to five years.

6. Save As You Earn linked share option schemes already cover 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

7. I also want to ease the difficulties when the employees of a company seek to buy the business for which they work. The transformation that followed the employee buy out of the National Freight Company shows how valuable this can be. In order [to help those who borrowed to buy their shares in the National Freight Company and] to encourage similar success I propose that where an employee controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

8. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced

that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

9. I propose to double the present retirement relief, raising it to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. There are, however, features of this relief which are unsatisfactory, and I am therefore authorising the Inland Revenue to consult about these wider aspects over a longer timescale.

10. The cost of all these CGT measures will be £15 million in a full year. There will be no cost in 1983-84.

11. On capital transfer tax, I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

12. I am particularly concerned that the prospect of capital transfer tax may still discourage those who are contemplating investing capital in small businesses. It

may also be one of the factors reducing the number of farms available for letting. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 30 per cent.

13. The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year. Other minor changes to CTT and CGT are set out in an Inland Revenue press notice.

14. I propose two other measures to help small firms. The VAT registration threshold will be increased with effect from midnight tonight from £17,000 to £18,000.

15. And I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

16. The cost of these measures will be £5 million in a full year.

17. Now, innovation and technology. I have already announced an increase in the proportion of office space in buildings qualifying for the industrial buildings allowance. This additional flexibility will be of particular value in the high technology industries, which often need relatively large amounts of space for design and computer based activities. It will cost about £25 million in a full year.

On the tax side I also propose to extend the 100 per cent first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The cost of these two measures will be [£] million in a full year.

18. On the public expenditure side, I propose a range of measures for the encouragement of industry and enterprise worth £185 million over the next three years.

19. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

20. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to small engineering firms generally.

21. In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products. [Funds will also be available to support research and development in the field of advanced information technology, in the light of the recent Alvey Report.]

22. At the moment grants are available for research and development but not for bringing new products into production. A new grant will be introduced to support the initial investment required for this.

23. There will also be an increase in expenditure on Department of Industry's manufacturing & design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

24. My Rt Hon Friend the Secretary of State for Industry may have an opportunity, at a later stage in this debate, to describe these measures in more detail. Taken together with measures previously announced, they will mean that government assistance on new technology and innovation will have risen by over 75 per cent in real terms since the Government took office.

25. Last year I extended the small workshop scheme by two years for very small industrial units. The scheme is

proving very effective in promoting the provision of premises for new businesses. This year I want to encourage the conversion of more old buildings into thriving workshops: I propose to allow all such units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

26. Now I come to the important matter of finance for business, on which I have major improvements to propose.

27. Companies and monetary policy alike would both benefit from a revival of the corporate bond market. Lower long term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

28. A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

29. There was considerable support for an arrangement under which the borrower would get relief on an accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.

30. Companies will still be able to issue conventional or indexed bonds. My proposal will extend the range of options. In addition, the Bank of England's management of the new issues queue will continue to give companies flexibility in coming to the markets of the kind the recent introduction of shelf registration has provided in the United States.

31. I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

32. We will be issuing on 21 March a consultative document on the possibilities for streamlining stamp duty.

33. The Loan Guarantee Scheme is another important innovation. My Hon Friend the Parliamentary Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has usefully encouraged lending to the small firms sector. Nearly £300 million has been lent to some 9,000 companies, [ ] of them new businesses. As a result, the scheme is now close to its present ceiling of £300 million. This ceiling will therefore be raised to £600 million to enable the scheme to run its full three year course to May 1984, [and we may need to seek the House's approval for an increase in the statutory limit for this purpose.]

34. On 3 March I informed the House about the publication of the report of the working party on freeports, under the Chairmanship of my hon friend, the Economic Secretary to the Treasury. I can now tell the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected freeport sites to be designated.

35. Freeports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, therefore, the first step is to establish freeports on an experimental basis in two or three locations. Widspread consultation will be needed before the sites are chosen.

36. Last, but far from least, <u>the Business Start-up Scheme</u>. This scheme, announced in my 1981 Budget Statement, offers uniquely generous tax incentives to outside investors in small companies. It is not bettered anywhere in the world. But I now intend to better it.

37. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance.

38. I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include not only new companies, but all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

39. These proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and is another measure in this Budget that will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

40. Our constant concern as a government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further major step in that direction.

BLOCK Q: PEOPLE AND BUSINESSES

1. The measures I have announced so far go largely to help businesses in the first instance. I estimate that they will provide relief and help in a full year amounting to over £¾ billion. This comes in addition to the help to business worth another £¾ billion which I announced in the autumn.

2. Any Chancellor, whether he is proposing increases in tax or, as now, tax reductions, faces a difficult choice between the claims of different groups. But this dilemma is less acute than it is sometimes represented. Any reduction in the level of taxes helps to ease a burden on the economy.

3. Reductions in personal taxation themselves help businesses and employment. Indeed, it is those who work in business who mainly determine business success. For years in Britain the tax system and tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. Not least because when the State takes less of what people earn, there is less justification for excessive pay demands and settlements.

And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs.

4. In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly help to reduce the growth in business costs. I have also taken into account the lower level of the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes alter the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. Consequently, in my 1981 Budget, personal income tax thresholds remained unchanged in order in part to be able to offer some help to companies. The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards industry to help cash flow and rebuild profits. In this Budget, the balance can rightly swing a little in the opposite direction.

5. Happily, because of our success in controlling public spending, the choice is less stark now than in the past. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

6. Acknowledged unfairnesses and absurdities produced by the overlap between tax and social security systems give further compelling reasons to move in that direction.

It makes no sense that people on low incomes should be paying such large amounts of tax. And low tax thresholds are of course an important part of the so-called poverty and unemployment trap. These traps mean that some of those out of work who could find a job, and some of those in work who could find a better one, do not do so because they would end up no better off, with all or more of their increase in income taken in tax and national insurance contributions, or lost in benefits foregone.

7. This is a situation that demands reform. But those who claim to have found a quick, cheap way to dispose of the poverty and unemployment traps deceive themselves. The problem has grown up almost entirely because Governments for thirty years or more have increased benefits in line with earnings, but raised personal tax thresholds only in line with prices. In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than a third of average earnings. At the same time, to limit the rising burden of the social security budget, means-testing has been applied to a wide range of benefits.

8. A situation that has built up over thirty years cannot be put right in one Budget or one Parliament. These problems have arisen, moreover, not because Government spends too little, but because successive Governments have spent and taxed too much. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid.

And several of the measures we have taken since 1979 have reduced the unemployment trap. But it is only by limiting public spending and so making scope for higher personal tax thresholds that we can make a start on tackling the problem at its roots, as I now propose.

BLOCK R: PERSONAL TAX

1. In 1979 I reduced the basic rate of income tax from 33 per cent to 30 per cent, and cut the top rates. That was one of the first, and most radical, of the many changes that found a place in my first four Budgets. This year we can cut personal taxation again. But I do not propose any further reductions in rates. For the reasons I have just given it is thresholds and allowances that must take priority.

2. Two years ago, in order to curb inflation and allow lower interest rates, income tax allowances were not raised at all. That was a difficult decision, but necessary in the circumstances. And it has since brought great benefits. It was the firmness of that 1981 Budget, which has since allowed me in two subsequent budgets to propose substantial tax reductions. It also paved the way towards the lower inflation and lower interest rates, which today offer the prospect of lasting economic recovery.

3. It is right that the benefit of the sacrifices of 1981 should be enjoyed now by those who made them then.

4. Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation, but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but 8½ per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and £2½ billion in a full year. Some 1¼ million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

7. This is entirely right, and will be widely welcomed.

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FROM: J O KERR

DATE: 12 March 1983

SIR DOUGLAS WASS

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir A Rawlinson
Mr Burns
Mr Littler
Mr Unwin
Mr Middleton
Mr Bailey
Mr Cassell
Mr Kemp
Mr Lavelle
Mr Moore
Mr Hall
Mr Allen
Mr Norgrove
Mr Ridley
Mr Harris

Sir Lawrence Airey - IR
Mr Fraser - C&E
PS/Governor - Bank of England

BUDGET SPEECH - FINAL DRAFT

The Chancellor was grateful for the comments submitted on Friday's eighth draft of the Budget speech.

... 2. Any further comments should now be related to the attached final draft, and should be submitted at the latest by <u>3pm on 14 March</u> - and preferably earlier.

JOK

J O KERR

INTRODUCTION

The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately 4¾ hours. The then Leader of the Opposition said of the speech: " ... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course. But I can assure the House that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. Or at any rate the shortest so far. And that will not be its only attractive feature.

For I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

/The requirement we

The requirement we saw, and the country accepted, in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations.

WORLD ECONOMY

Already by 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent, as the effects of the second oil price shock hit home, that the fresh start would have to be made in an international setting that was profoundly and increasingly unhelpful.

Last year world output and trade were lower than generally expected. In the major industrial economies output actually fell. And more than 30 million of their people were unemployed.

Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports. And that has added to the fall in world trade.

Now, however, there are signs that the worst of the problems of the world economy are beginning to abate.

Oil prices have weakened. For the world as a whole this means lower inflation, and hence an encouragement to increased activity.

More important still, there are clear signs that the world is breaking the inflationary habits of the 1970s. In many countries in the past year the rate of increase in prices has fallen more steeply than expected.

At the same time, interest rates have declined substantially almost everywhere, including, of course, here. In the United States, though real interest rates remain high, 3-month rates have almost halved from last summer's peaks.

Looking ahead, 1983 should see recovery in the major economies gathering pace as the year goes on. This should be accompanied by a recovery of world trade.

Even so, we cannot expect a year of trouble-free progress. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries has to be encouraged, and world recovery nurtured and sustained.

There is a major task here for the international financial institutions, which deserve - indeed require - our full support. The need is not for blue-prints for new institutions, but for increased commitment - political and financial - to the existing ones. That is why, as Chairman of the Interim Committee of the International Monetary Fund, I worked this winter for an

/early increase in

early increase in the resources available to the Fund for lending to countries in difficulty. And why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments - including this House. But their effect should be substantially to increase the usable resources at the Fund's disposal - and I hope that the House will share my view that this is a wholly welcome development.

The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits no-one, continues to grow. The efforts ofthe US Administration to cut back its daunting structural deficit are crucial to the prospects for interest rates and future inflation, and hence recovery prospects, for us all.

It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. A paradox indeed: and in truth nothing could be more dangerous for recovery.

Lower inflation and lower interest rates are themselves the right foundations for economic recovery, a recovery which

/will be healthy

will be healthy and sustainable. The days when Governments by spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven years ago. But lower interest rates, and lower inflation, reduce costs and provide room and encouragement, within prudent fiscal and monetary objectives, for greater real growth of activity.

And the prospect now is for just such a recovery. It will be gradual, but it should be steady, provided that anti-inflationary gains are not thrown away. And the international consensus is that they must not be thrown away.

This is the heart of the strategy agreed at last year's Versailles Summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will: but it is backed by a broad measure of international commitment on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.

THE DOMESTIC ECONOMY

At home as abroad, the need is for steadiness and resolve.

Government spending is being restrained. The public sector deficit, as a percentage of our domestic product, is now one of the smallest in the industrialised world. Monetary growth is towards the middle of the 8 to 12 per cent target range. And inflation, at 5 per cent, is lower than at any time since 1970.

Last year saw a surplus on our balance of payments current account of some £4 billion. In 1983 too we now expect a significant surplus. Total official external debt now stands at around $12 billion, compared with $22 billion when we took office. Britain's overseas debt burden is now smaller in relation to our trade than at any time since the second World War.

In our own economy domestic demand has been growing - at some 2 to 3 per cent a year in real terms - since the spring of 1981. This is a considerably stronger growth of demand than in most other industrial countries. Indeed, in the industrial world as a whole demand has tended to fall. With

/this weakness

this weakness in overseas demand and some further rise in our imports, total output in this country increased last year by only ½ per cent. This year we expect domestic demand to grow by over 3 per cent and output to rise by some 2 per cent. This is likely to be in line with, or a little faster than, the projected growth in world output.

I have spoken so far of output in the whole economy, and it is worth noting that the construction industry's orders and output rose in the second half of 1982. Housing starts in the three months to January rose by over 13 per cent on the previous three months. And for manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests a rise in 1983. Figures published today show a 2½ per cent rise in manufacturing output in January, and an increase of 3½ per cent since the beginning of December. These are clear indicators of recovery, and should be welcomed by all in this House.

UNEMPLOYMENT

Unemployment, however, remains intractably high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against only 1.4 percentage points here.

Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long recession. These special employment and training measures will next year bring direct help to more than 650,000 people.

We now propose to extend this help in four further ways.

In the first place, some 90,000 men between the ages of 60 and 65 now have to register at an unemployment benefit office, if they wish to secure contribution credits to protect their pension rights when they reach 65. From April, they will no longer have to do this. Even if those concerned subsequently take up part-time or low-paid work on earnings which fall below the lower earning limit for contributions,

/their

their pension entitlement will be fully safeguarded.

Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify for the higher long-term rate of benefit. From 1 June they will qualify for the higher rate as soon as they come onto supplementary benefit. For this purpose they will in effect be treated as if they had already reached retirement age.

Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else who wants a job. I can now announce a new scheme for part-time job release. It will apply to the same categories of older people who are willing to give up at least half their standard working week, so that someone else can be taken on for the remaining half. The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October and should provide part-time job opportunities for up to 40,000 more people who are at present unemployed.

Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in January 1982.

/The response

The response has been very encouraging and there is already evidence that many of the 2,000 or so new businesses created under the scheme are generating extra jobs. I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1983-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

The gross cost of these four measures is estimated at £55 million in 1983-84 and £100 million in 1984-85. The net public expenditure cost will be much less than this - some £40 million in 1983-84 and £55 million in 1984-85.

These new measures will build on our earlier employment and training initiatives, notably the Youth Training Scheme, providing 12 months training for almost half a million young people each year; and the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of special employment and training measures.

/Finally

Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said than that we would review the position once the benefit was brought into tax. That happened in July last year. As my rt hon Friend the Secretary of State for Social Services said when the House last considered the issue, the Government accepted in principle the case for restoration of the abatement. It is right now to redeem that pledge. In the uprating that takes place in November this year the abatement of unemployment benefit will be restored in full.

INFLATION

But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. So we must look for a larger share of rising demand to be translated into British output and British jobs.

Progress on inflation is crucial to the prospects of higher output and lower unemployment. Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country; and it is widely recognised that it results from the firmness and consistency of the policies we have pursued in the past four years.

We shall not change course. Downward pressure on inflation will be maintained. With the fall in the exchange rate some check in our progress now is unavoidable. In the fourth quarter of this year inflation in retail prices may temporarily be running at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. And it seems likely that the GDP deflator -

/which is

which is a measure of prices across the whole economy - will show a continuing fall from 7 per cent in 1982-83 to 5½ per cent next year.

High inflation destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

Lower inflation will lead to higher real demand and output, provided we hold to the Medium Term Financial Strategy. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And lower inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

Lower inflation and interest rates also ease the burden of mortgage interest, helping house buyers and in turn house building.

/With

With lower inflation the cash programmes of the public sector go further: they buy more in the way of goods and services.

Lower inflation and interest rates have contributed to the fairly strong growth in demand in the British economy over the past two years. Demand in overseas markets has of course remained weak. Now that world inflation is much lower the level of world demand too should rise over the next year. With continued success against inflation we should see a revival of markets abroad as well as continued growth of markets at home.

Lower inflation here provides the right framework for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that Government will not finance higher inflation, has done much - though still not enough - to bring commonsense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more

/widely

widely understood. So too is the case for higher productivity, which over the last two years, has improved in manufacturing industry by some 13 per cent.

More moderate pay settlements, combined with improved productivity, are two of the reasons why last year, in a shrinking world market, British manufacturers succeeded in enlarging their market share. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

And provided we go on achieving success against inflation. Today's unemployment was fostered by long years of high inflation. And by failure to tackle it soon enough, and to keep up the fight.

But now the trend of rising inflation that appeared irresistible has been decisively broken. We are now certain to be thefirst Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.

MONETARY POLICY

One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad. However much they may deny it now, it was, of course, a pillar of the last Government's counter-inflation policy.

And rightly so.

In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, - always an alluring document, but now in even more readable format to match the Autumn Statement - includes a full discussion of these matters. I shall summarise it only briefly now.

Since the last Budget, financial conditions have developed much as I foreshadowed. In the year to February, the growth of all three target aggregates was within the target range of 8 to 12 per cent. Other financial indicators also pointed to moderately restrictive monetary conditions.

/As in other

As in other industrial countries, real interest rates remained high throughout the year.

But with the satisfactory development of financial conditions and rapid progress in reducing inflation a significant fall in interest rates was possible. By mid November, short term rates had fallen to 9 per cent. They subsequently moved up to around 11 per cent, but they are still very substantially below the 16 per cent of November 1981.

For most of the year the exchange rate was strong. The weakening in November and December seemed mainly to reflect external factors such as concern about oil prices and sharp movements in the world's other major currencies. Opposition statements and election uncertainties, here and abroad, may have also played a part in currency movements.

But this winter's movements in sterling rates were certainly not due to any laxity in the Government's financial policy. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation from the fall in the exchange rate that has taken place.

/The lower exchange

The lower exchange rate will of course give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, there would be only a temporary improvement to our competitive position, and no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity would be damaging. And to seek it as a deliberate act of policy would be a grave mistake. It would be a signal to the world of a willingness to accommodate rising inflation - an inflation that would undoubtedly be fuelled by demands for higher wages to offset its effects. Confidence would collapse. And jobs would be destroyed.

That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8 to 12 per cent in 1982-83, a target of 7 to 11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7 to 11 per cent. Once again it will apply to both broad and narrow measures of money, though, as I said last year, M1 may for a time grow rather faster than indicated by the range. Given the

/prospect for inflation

prospect for inflation this range gives scope for a healthy rise in output.

The establishment of the Medium Term Financial Strategy has been more than justified by its value as a framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy.

We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

The Department for National Savings is close to achieving this year's target of £3 billion. For the coming year, I am again setting a target of £3 billion. Nearly £2 billion worth of indexed gilts have been issued over the past year and it has been possible to dispense almost completely with long term fixed interest stocks, which has helped bring long rates down very nearly as much as short rates.

PUBLIC SECTOR BORROWING

Control of money needs to be supported by firm control of public sector borrowing. Otherwise the result is to push up interest rates, and create strains that sooner or later prove intolerable. Other countries understand this. All too many have had to learn the hard way.

A substantial reduction in the trend of public sector borrowing over the medium term is a necessary part of the process of reducing inflation. We have made good progress. During the latter half of the 1970s, public borrowing represented, on average, about 6 per cent of Gross Domestic Product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP.

For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The outturn is likely to be substantially lower, principally because oil revenues have been very much larger than expected. The latest estimate suggests an outturn of about £7½ billion - or 2¾ per cent of GDP. However, the year is not yet over, and there are large sums on the expenditure side yet to be brought to account, and on the revenue side to be collected. So this year's outturn figure is still subject to a considerable margin of error.

/For 1983-84

For 1983-84 last year's Budget Statement suggested a PSBR of 2¾ per cent of GDP as consistent with the desired trend to lower borrowing. That is equivalent to about £8 billion at the level of money GDP now forecast. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and of the main uncertainties which now confront us. On interest rate grounds, there is a clear case for continued fiscal restraint. Interest rates, though lower than they were, are still undesirably high both in nominal and in real terms. The fact that the exchange rate has now moved to a lower level eases the financial pressures on companies. But we need to remember that holding to the MTFS as inflation falls is the best way of helping the recovery of output.

I have also had to consider the implications of the recent fall in North Sea and other oil prices and the continuing uncertainty about future oil prices. The fall in the general level of world oil prices that has already taken place is to be welcomed. It is worth recalling that in 1979-80 the world price of oil rose by more than 2½ times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.

Of course lower oil prices reduce the value of our own oil production. But North Sea oil accounts for only 5 per cent of our National Income, and tax on it for only some 6 per cent of Government revenues. Moreover, the health of a much larger part of our national economy depends on the state of the world economy. Lower oil prices and lower inflation abroad mean lower prices here. And a more prosperous world will in time mean more output and jobs in Britain.

But, on the strictly budgetary front, a further cut in oil prices could affect the balance of revenue and expenditure, and I have to take this into account. It would plainly be wrong, as well as impractical, to react to every change in the oil market by changing taxes. Nonetheless, if any further reduction in oil prices seemed likely to compromise the success of our economic strategy, I would be ready to take appropriate corrective action.

Taking these factors into account, I have decided to hold to the previous plan, and provide for a PSBR in 1983-84 of 2¾ per cent of GDP, that is £8 billion.

Last autumn, I announced measures with a revenue cost of some £1 billion in 1983-84. Most of this was directed to reducing the burden on private industry and commerce. It included a cut in the National Insurance Surcharge.

After allowing for that, and for the other changes

/announced

announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a net cost to the PSBR of some £1½ billion. The full year revenue costs of my proposals will of course be rather larger than that.

The Red Book gives revenue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is, of course, no certainty about the precise figures. But they show how lower borrowing can be combined with lower taxes, and reductions in inflation and interest rates. As was indeed illustrated by my last Budget.

PUBLIC EXPENDITURE

Central to the restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP, which is the measure of the burden which public expenditure places on the rest of the economy, has been reduced from 44½ per cent in 1981-82 to a planned 43½ per cent in 1983-84.

In working to get and keep public spending down we have been helped by another important institutional innovation which we have introduced: cash planning. Improved control of expenditure has been an essential factor in making possible the tax reductions I am announcing today.

I shall also be announcing additions to certain public spending programmes; but they will all be met from the Contingency Reserve; and so will not add to the planned total of expenditure.

/We have also

We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. The target of 630,000 by April 1984 which we set ourselves on taking office, and which some thought unattainable, is thus now within reach. Civil Service numbers will by next year be lower than at any time since the War.

SOCIAL SECURITY AND CHARITIES

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total.

About half of social security expenditure is on benefits for pensioners.

The House will remember that, because prices have been falling faster than expected, last November's uprating of social security benefits, which was meant to be linked to the rate of inflation, in fact exceeded it by 2.7 per cent. As a result, beneficiaries received an advance payment of part of the increase due this November. The costs of increases are borne mainly by contributors; and we had in November to announce further increases in National Insurance contribution payments, which take effect from next month. The effect of the proposal I am about to make will be able to leave beneficiaries with the full benefit of the advance payment in the current year, and some part of it in the year from next November.

The forecast method of uprating, which gave rise to the situation I have just described, has never worked well. For a forecast made at Budget-time of what the rate of inflation

/will be

will be at the time the uprating takes place in the following November is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others, such as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of the previous year could be corrected.

The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. The fact is that the only reason that this system was introduced by the Party opposite was in order to make savings of £500 million in 1976. Given the experience of the past seven years, the Government believes that there is an overwhelming case for restoring the more certain system that prevailed before 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future - if we got our forecast right.

From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

The uprating this November will be based on the rise in

/prices

prices in the twelve months to May of this year. That figure will be announced on 17 June, and my Rt Hon Friend will use that figure as the basis for the uprating statement that he will make as soon as possible after that. We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

The uprating will be based on whatever the May figures turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

It seems likely, however, to be in the region of 4 per cent. I must make it clear that on present forecasts this is likely to be a lower percentage than if we relied on the present unsatisfactory system of fixing the rate on the basis of a forecast figure for next November. For in November, as I have already told the House, the annual rate of inflation may temporarily be running at about 6 per cent.

Even so, benefits are likely to be increased by significantly more than would have been the case under the old system if full account had been taken of the amount of last year's advance payment. And there will of course be no question of any so-called "clawback". Indeed there never was. Beneficiaries will retain the full benefit of the advance

/extra payment

extra payment they are now receiving. And part of it is likely to continue into 1984.

Linked public service pensions will be raised in November by the same percentage as benefits. For unemployment benefit, the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

On the basis I have described, the position for pensioners over the life-time of this Government is this. Between the November upratings of 1978 and 1983 prices are likely to have risen by some 70 per cent, and pensions by some 75 per cent. Our pledge to maintain the value of the pension over the life-time of this Parliament will thus have been more than fulfilled.

There is of course one other social security benefit to which we attach no less significance. It plays a major part in easing the unemployment trap, and so in our strategy of improving incentives for everyone. It is important for families, and particularly for the low-paid. I refer, of course, to child benefit.

I am glad to be able to tell the House that from November 1983 the rate of child benefit will be increased from £5.85 to £6.50. One-parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast, both benefits will then be worth more than ever before. I know that the House, and the country, will welcome this news very warmly.

/This

This Government also gives special priority to help for the sick and disabled, and for widows. I am proposing further measures to increase that help.

In my first Budget I exempted from tax war widow's pensions and widow's child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However, because their income in that year is already covered by other allowances, many newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well, at a cost of some £30 million in a full year. This change will more than double the number of widows benefiting from the bereavement allowance.

We also intend to provide significant new help for about 55,000 invalidity pensioners. Until now the so-called "invalidity trap", prevented them from receiving the long term rate of supplementary benefit. I announced earlier that the unemployed over 60 will now be entitled to the long term rate. In addition I am glad to be able to tell the House that we also intend to amend the regulations so that people under 60 who have been on incapacity benefits for a year will qualify for the long term rate. This will get rid of the invalidity trap. And quite right too. There will also be an increase from £20 to £22.50 in the amount which

/disabled

disabled and chronically sick people can earn before their benefit is reduced.

While we need to ensure that social security benefits go to those most in need, I am concerned that we should not discourage people from saving. We shall therefore increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

We also propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their traditional preference over civilian benefits.

These measures, taken together with the increase in child benefit and one-parent benefit and the ending of the abatement of unemployment benefit, add £101 million to the social security programme in 1983-84 and £286 million in 1984-85. That is in addition to the cost of the extension of the long term rate of supplementary benefit to the over 60s, to which I referred earlier.

But caring means more than cash. Many of the key needs, for example, of the elderly, are met by voluntary groups and charities. If they are to do all they can, we must help the helpers.

Once again we have been pressed to reimburse charities for VAT on their taxable purchases. But, however exhaustively and sympathetically we examine this proposal, the difficulties remain and cannot be swept aside. I have of course been able in previous years to extend VAT reliefs for the disabled and charities serving them. But a VAT refund scheme would be expensive to operate and indiscriminate in its effects, benefiting not only those charities which do valuable work in the community but also - and sometimes disproportionately so - many other bodies with very limited or controversial aims which do not command public support. So, as before, I have been forced to conclude that we are right to channel our help in other ways.

But I do intend to give more such help. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these two measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of

/covenant

covenant and by abolishing the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be entirely free from CTT.

I have had representations about the position of companies who would like to second their staff, with pay, to charities. At present the employee's salary is not allowable for tax because it is not an expense incurred by the company wholly and exclusively for the purpose of its business. For normal business expenses we must continue to stick to that general principle. But I am satisfied that it is right to make an exception in this limited case. Companies which lend staff to work for charities and continue to pay their salaries will now be able to treat the cost as an allowable expense for tax purposes.

HOME OWNERSHIP, HOUSING AND CONSTRUCTION

I come now to housing and the construction industry. The whole House is, I know, anxious to see more activity in this sector. Within the public expenditure plans there is provision for capital expenditure on construction in 1983-84 of over £10 billion, a 10 per cent increase on this year's expected outturn. We want this money used effectively for the purpose for which it is intended.

One of our highest priorities has always been the extension of home-ownership. This Government has done more than any other to encourage this. Since we came to office almost ½ million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first time buyers to meet the costs of a mortgage.

But it is now clear that the £25,000 limit on mortgage interest tax relief is beginning to hinder a growing number of families who want to buy their first home. I have therefore decided to increase the limit to £30,000. This will cost some £50 million in 1983-84: it will help potential homeowners and the construction industry alike. At the same time I intend to remove an anomaly whereby a borrower may

/get tax relief

get tax relief in excess of the ceiling for both an ordinary mortgage and an interest-free loan from his employer.

I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent them living in their own homes, to self employed people, like tenant farmers and tenant licensees, who have a contractual requirement to live in accommodation provided for them but who are also buying their own homes. This will be accompanied by a similar extension of the capital gains tax relief applying to a private residence.

Let me explain that I am not, by this relief to tenant licensees, widening the scope of Government policy to transfer public housing to private ownership. Some Public Houses have their attractions. My aim is simply to help tenant inn-keepers buying their own homes elsewhere.

We want to help people not only to own their own homes but also to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grants. This has proved very successful indeed. Expenditure in 1982-83 will be twice that in 1981-82 and a further increase is expected this year.

/We have already

We have already announced that the higher rates are to continue until the end of 1983-84. And local authorities have been told they may spend without limit on all improvement grants next year. To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20 per cent.

Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the Inner Cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping - where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and we will be allowing local authorities to undertake additional expenditure in 1983-84 on any approved enveloping scheme.

These two measures are likely to lead to additional expenditure of some £60 million in 1983-84. In addition my RHF the Secretary of State for the Environment is today announcing further measures to encourage local authorities to make full use of the resources available to them for capital investment.

/I myself can

I myself can announce three further steps to help the construction industry.

First, in 1981 I introduced a scheme to defer Development Land Tax on developments for the owners' own use. The scheme, which is due to end in April 1984, has proved valuable, and I propose to extend it to April 1986, at a cost of £4 million in a full year.

Secondly, stock relief will from today be available for houses accepted by builders in part exchange on the sale of a new house for the personal use of an individual or his family. This will cost £5 million in a full year.

Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance - an allowance which I increased in 1981. The cost will be about £25 million in a full year.

These new measures will be welcomed by the industry.

INDIRECT TAXES

I come now to the indirect taxes.

I propose no change in the present rate of VAT.

In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.

This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.

I start with the duties on alcoholic drinks, I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7 pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing

/with beer, I

with beer, I propose a similar increase of one penny a pint.

As for tobacco, I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco. These changes will take effect from midnight, Thursday.

Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon, including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon. These changes will take effect for oil delivered from refineries and warehouses from 6pm tonight.

As in the last two years, I propose no change in the rate of duty on heavy fuel oil. The real burden of this duty will thus have been reduced since 1980 by some 20 per cent. This will be of considerable continuing assistance to industry, since it will help to hold down its energy costs.

I also propose a number of changes in the rates of

/vehicle excise duty.

vehicle excise duty. For cars and light vans the duty will be increased by £5 from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.

OIL TAXATION

I come now to North Sea tax. The development of the North Sea is a notable achievement of private enterprise and the result of a huge co-operative effort involving hundreds of companies and thousands of people. We want this to continue, despite changes in oilfield economics. Tax is not the only factor. Steps taken by the industry to cut costs, and the future level of oil prices, will be at least as important. But the tax structure must adapt as well.

I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, and, in order to help finance new activity, a package of relief on current fields. The industry will benefit from these changes by more than £800 million over the next 4 years, starting with £115 million in 1983-84.

To encourage further exploration and appraisal, I propose immediate relief against Petroleum Revenue Tax for expenditure incurred after today in searching for oil and appraising discovered reserves.

For future fields I propose two important new incentives. First, the oil allowance will be doubled for such fields.

/Second,

Second, my Rt Hon Friend the Secretary of State for Energy will be taking steps to abolish royalties for these fields. The changes will apply to future fields where development consent has been given on or after 1 April 1982, with the exception of the relatively more profitable Southern Basin and onshore fields. I am ready to discuss with the industry whether there is a need to extend these incentives to the Southern Basin fields. If I were to be persuaded of the need, any extension would be backdated to development consents issued after today.

Most existing fields make good profits. But to improve current cash flow, I have decided progressively to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to 15 per cent from 1 July, and APRT will disappear completely by the end of 1986.

An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. They include, following the Consultative Document published last May, proposals on PRT reliefs for expenditure on shared assets such as pipelines, and for charging related receipts. The proposals will give significant additional relief on expenditure and will exempt tariffs on half a million tonnes of oil a year from each field using a pipeline. This will encourage the shared use of these assets.

/I believe

I believe that my proposals will provide the industry with the right fiscal incentives for the further successful development of the country's North Sea resources.

NATIONAL INSURANCE SURCHARGE AND COMPANY TAXATION

From one key industry I turn now to business and industry as a whole. Our living standards and jobs depend on our ability to sell and compete, producing the right goods and services at the right time and the right price. The main responsibility for achieving this lies with industry and commerce. But Government can help by reducing the burdens it places on business.

These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. We have made progress in putting that right. But Government also imposes direct burdens on business, and here too we have acted to help cut costs. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs first introduced and then increased by our Labour predecessors.

I suppose that, to be scrupulously fair, I ought in fact to point out that NIS - or at least its increase - was a child of the Lib/Lab pact of 1977. A child of unmarried parents, in short - so I'm not sure what I should call it. What is clear is that, though there have since been some

/changes of partners,

changes of partners, none of the parties on the benches opposite can deny responsibility for it.

In last year's Budget I cut NIS from 3½ per cent to 2½ per cent. In November I announced that, for 1983-84, the rate would be further cut to 1½ per cent. On top of this I made special arrangements to enable half of that cut of 1 per cent to be brought forward into 1982-83.

I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £215 million in 1983-84 and nearly £400 million in a full year.

The surcharge was 3½ per cent when this government took office. We are now well on the way to abolishing it. The reduction from 3½ per cent to one per cent will be worth nearly £2 billion to private business in a full year.

On Corporation Tax, a Green Paper was issued over a year ago. I am grateful for the many thoughtful responses. They raise a wide range of issues which we have examined carefully. But there is one impression that stands out.

That is the over-whelming desire on the part of industry for stability in the Corporation Tax regime. I recognise

/the force in

the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

There are however some useful changes on which I can make a start today.

At present, advance corporation tax can be carried back two years to be set against corporation tax. I propose to extend this over a period to six years. I also propose that the incidental business costs of issuing acceptance credits and of issuing certain convertible loan stocks should be allowable expenses for corporation tax purposes. There are other areas where we need to make progress, including the tax treatment of groups and capital allowances for the mineral extraction industries. I am authorising the Inland Revenue to look further at these issues, and to consult on them where necessary.

On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

/On tax havens,

On tax havens, however, I propose to move clauses which take account of the recent consultations. These will not come into effect until April 1984.

This change should be considered alongside one other proposal that flows from the Corporation Tax Green Paper. At present credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. As a result of representations received in response to the Green Paper, I propose that from April 1984 this double tax relief should be allowed against the full corporation tax liability before ACT is deducted.

As I have said, my proposals on tax havens and on ACT and double tax relief have to be seen together. Between them they will not involve any increase in the total burden of tax on international business. But they do mean a switch in the tax burden away from those who remit profits home and on to those who accumulate surplus cash balances in tax havens overseas. I am sure the House will agree that this is right.

To turn to a different area, I announce each year the future scale rates for measuring the benefits from company cars. Recent increases have been at a rate of 20 per cent, but the levels still fall short of any objective measure of

/the true benefit.

the true benefit. This year I am proposing further increases with effect from April 1984;but they will be held to about 15 per cent. The same increase will apply to the new car fuel scales which come into operation next month.

I have also decided to legislate to bring back into tax the benefit from scholarships provided by employers for the children of their higher paid employees. There will be a transitional exemption for awards made before today so that scholarship income in respect of an existing award will continue to be exempt until the child leaves his present school or college.

I propose too to remove an anomaly by which some people have their tax bills artificially reduced because their employers do not account for PAYE at the right time and then pay over too little. I also propose with effect from April 1984 to increase substantially the tax measure of the benefit gained by an employee who occupies rent-free, or at a very low rent, more expensive accommodation owned by his employer.

The House will be aware of instances of tax avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose legislation to deal with these abuses and also to improve the arrangements for collecting DLT on disposals by non-residents.

And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and have concluded that it would not be sensible now to take action which might weaken the Banks. There will therefore be no tightening this year of the tax regime for banks.

Finally for the company sector, I propose some changes that are designed specifically to help small and medium-sized companies. At present the so called small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000, and to raise the upper limit from £225,000 to £500,000.

Between these two limits profits are subject to a transitional marginal rate. When this Government came into office that marginal rate stood at just over 66 per cent. I have already reduced it to 60 per cent. The changes that I am proposing today will bring it down to 55½ per cent - only a little above the main 52 per cent rate. These changes will concentrate the help that I can give on the many small and medium-sized firms with taxable profits of up to £½ million.

The cost of these Corporation tax changes for smaller companies will be £40 million in 1983-84 and £70 million in a full year.

ENTERPRISE

Small and medium sized enterprises are a major source of new wealth for the nation and, above all, of new jobs. I shall, therefore, propose today a further series of measures which will foster their growth, greatly extending those which I have already introduced, and whose results are already evident. I am told that Britain now offers a more attractive tax environment than Germany for venture capital and for the micro-electronics revolution. That was not so five years ago.

I now propose further action in a number of areas.

I want more people to share in the ownership of the companies for which they work. It is both a good incentive and a good way for people to build up a capital stake. The measures so far introduced have already brought us to the position where about a quarter of a million employees receive shares each year.

But I want to make these Employee Profit Sharing Schemes more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or 10 per cent of their earnings, up to a maximum of £5000.

/This new

This new freedom will provide still further encouragement to management, upon whom so much depends.

Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the instalment period from three years to five years.

Save As You Earn linked share option schemes already cover over 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

I also want to ease the difficulties when the employees of a company seek to buy the business for which they work. The transformation that followed the employee buy-out of the National Freight Company shows how valuable this can be. In order to help those who borrowed to take part in this buy-out, and to encourage similar success, I propose that where an employee-controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

/Capital

Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

I propose to double the present retirement relief, raising it to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. I have received a number of representations that other features of the present relief cause difficulty, and we shall therefore be conducting further consultations later this year.

The cost of the CGT measures I have announced will be £15 million in a full year. There will be no cost in 1983-84.

On capital transfer tax, I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

/I am

I am concerned that the prospect of capital transfer tax may still discourage those who are contemplating investing capital in small businesses. It may also be one of the factors reducing the number of farms available for letting. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 30 per cent.

The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year. Other minor changes to CTT and CGT are set out in Inland Revenue press notices.

I propose two other measures to help small firms. The VAT registration threshold will be increased with effect from midnight tonight from £17,000 to £18,000, at a cost of £5 million in a full year.

And I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

Now, innovation and technology. I have already announced an increase in the proportion of office space in buildings qualifying for the industrial buildings allowance. This additional flexibility will be of

/particular

particular value in the high technology industries, which often need relatively large amounts of space for design and computer-based activities. It will cost about £25 million in a full year. On the tax side I also propose to extend the 100 per cent first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The cost of these two measures will be £30 million in a full year.

On the public expenditure side, I propose a range of measures for the encouragement of industry and enterprise worth £185 million over the next three years.

The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my Rt Hon Friend the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first

/allocation

allocation went to firms in the West Midlands. This new, and much larger, allocation should bring substantial further help to the region, as well as to small engineering firms generally.

In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products.

At the moment grants are available for research and development but there is no special facility for encouraging the marketing and investment stages of the innovation process. To fill this gap a new scheme will be introduced, which will be of special value to small and medium-sized companies.

There will also be an increase in expenditure on Department of Industry's manufacturing and design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

My Rt Hon Friend the Secretary of State for Industry may have an opportunity, at a later stage in this debate, to describe these measures in more detail. Taken together with measures previously announced, they will mean that Government assistance on new technology and innovation will have doubled since this Government took office.

/Last year

Last year I extended the small workshop scheme by two years for very small industrial units. The scheme is proving very effective in promoting the provision of premises for new businesses. This year I want to encourage the conversion of more old buildings into productive workshops: I propose to allow all such units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

Now I come to the important matter of finance for business, on which I have major improvements to propose.

Companies and monetary policy alike would both benefit from a revival of the corporate bond market. Lower long term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

There was considerable support for an arrangement under which the borrower would get relief on an appropriate accruals basis while the investor would only pay tax at redemption

/or on sale

or on sale. I propose to legislate to this effect.

Companies will still be able to issue conventional or indexed bonds. My proposal will serve to extend their range of options.

I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

We shall be issuing on 21 March a consultative document on the possibilities for the simplification of stamp duty.

The Loan Guarantee Scheme is another important innovation that we have introduced. My Hon Friend the Parliamentary Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has usefully encouraged lending to the small firms sector. Nearly £300 million has been lent to some 9,000 companies, about half of them new businesses. As a result, the scheme is now close to its present ceiling of £300 million. This ceiling will therefore be raised to £600 million to enable the scheme to run its full three year course to May 1984, and we may need to seek the House's approval for an increase in the statutory limit for this purpose.

/On 3 March

On 3 March I informed the House about the publication of the report of the working party on Freeports, under the chairmanship of my Hon Friend, the Economic Secretary to the Treasury. I can now tell the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected freeport sites to be designated.

Freeports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, therefore, the first step is to establish freeports on an experimental basis in two or three locations. Widespread consultation will be needed before the sites are chosen.

Last, but far from least, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, offers uniquely generous tax incentives to outside investors in small companies. It is not bettered anywhere in the world. But I now intend to better it.

When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often the greatest difficulty in raising outside equity finance.

/I now propose

I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include not only new companies, but all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

These proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and a further measure to encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

Our constant concern as a Government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further major step in that direction.

FISCAL BALANCE

In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly reduce business costs. I have also taken account of the lower level of the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes alter the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. Consequently, in my 1981 Budget, personal income tax thresholds remained unchanged in order in part to be able to offer some help to companies.

The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards business and industry, in order to help cash flow and rebuild profits. In this Budget too the measures I have announced so far go largely in the same direction. Taken together with the net effect of the changes that I announced last autumn, they will provide help for business and industry that is worth around 1¼ billion in a full year.

And that is less than half the story. For, if business had to pay the same share of total taxes in 1983-84 as it

/paid in 1978-79,

paid in 1978-79, then it would have to be paying some £3 billion more than is forecast for the coming year. But over the years I have acted deliberately to lighten that load. And I have done so in recognition of the case for helping business which has been strongly, and rightly, argued in debate after debate, and from all quarters of this House. I don't believe any hon member would suggest that business and industry should pay more tax.

But I have had to recoup the £3 billion. And I have had to do this alongside the need both to hold down borrowing - not least to reduce business costs - and to finance public expenditure. Although spending is now being restrained, and will fall slowly, it is worth noting again that there are few hon members who have not called for increases, rather than cuts.

And these are the reasons why the burden of tax on people, under successive governments, has become so unacceptably high. The House and the country must face this reality: spending at current levels, which many regard as too low, together with current levels of tax on business, which many regard as too high, have brought successive governments to a position where there has been no alternative to high levels of tax on people.

/But the fact

But the fact is that reductions in personal taxation themselves help business and employment. Indeed, it is the individuals who work in business who largely determine business success.

Yet for years in Britain the tax system and the tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. And when the State takes less of what people earn, there is less justification for excessive pay demands and settlements. And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs.

Happily, because we are reining back public spending - though not yet far enough - the choice is less stark now than in the past. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

Acknowledged unfairnesses and absurdities produced by the overlap between the tax and social security systems give further compelling reasons to move in that direction. It makes no sense that people on low incomes should be paying such large amounts of tax. And low tax thresholds

/are of course

are of course an important part of the poverty and unemployment traps. These traps mean that some of those out of work who could find a job, and some of those in work who could find a better one, do not do so because they would end up no better off, with all or more of their increase in income taken in tax and national insurance contributions, or lost in benefits foregone.

This is a situation that demands reform. But those who claim to have found a quick, cheap way to dispose of the poverty and unemployment traps deceive themselves. The problem has grown up almost entirely because Governments for thirty years or more have increased benefits in line with earnings, but raised personal tax thresholds only in line with prices,which have grown much slowly over the years. In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than one third.

A situation that has built up over thirty years cannot be put right in one Budget or one Parliament. These problems have arisen, moreover, not because Government spends too little, but because successive Governments have spent and taxed too much. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. And several of the measures we have taken

/since 1979 have

since 1979 have reduced the unemployment trap. But it is only by limiting public spending, as we have done, that we can begin to get to grips with the problem along the lines I now propose.

PERSONAL TAX

In 1979 I reduced the basic rate of income tax from 33 per cent to 30 per cent, and cut the top rates. That was one of the first, and most radical, of the many changes that found a place in my first four Budgets. This year we can cut personal taxation again. But I do not propose any further reductions in rates. For the reasons I have just given it is thresholds and allowances that must take priority.

Two years ago, in order to curb inflation and allow lower interest rates, income tax allowances were not raised at all. That was a difficult decision, but necessary in the circumstances. And it has since brought great benefits. It was the firmness of that 1981 Budget which paved the way towards the lower inflation and lower interest rates, which today offer the prospect of lasting economic recovery.

It is right that the benefit of the sacrifices of 1981 should be enjoyed now by those who made them then.

Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation, but 14 per

/cent in all.

cent in all. But because inflation is today so much lower that now represents a real increase of not 2 per cent, but 8½ per cent.

My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widow's bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion, which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and £2½ billion in a full year. Some 1¼ million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

CONCLUSION

At the start of my speech I referred to the objectives this Government adopted in 1979, to which we have held, and still hold. Lack of continuity and consistency of policy has contributed substantially to Britain's post-war history of economic difficulty and rising unemployment. That continuity and consistency has now been provided.

This Government has created the foundations for sustainable recovery. This is a Budget for that recovery. I commend it to the House.

1.

BUDGET SECRET

FINANCIAL SECRETARY TO THE TREASURY

FROM: E KWIECINSKI
DATE: 14 March 1983

pwp

PRINCIPAL PRIVATE SECRETARY

PS/FST
We spoke.
JR 14/3

cc CST
EST
MST(C)
MST(R)
Sir D Wass
Sir A Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Moore
Mr Bailey
Mr Cassell
Mr Hall
Mr Allen
Mr Norgrove
Mr Ridley
Mr French
Mr Harris
Sir L Airey/IR
Mr Fraser/C&E

BUDGET SPEECH

The Financial Secretary has made the following comments on the eighth draft of the Speech:-

Section E.8 - Lower inflation and public investment programmes - He has commented that it might be worth expanding this paragrapth to show that failure to invest is now the fault of the local authorities and nationalised industries, taken short by the cheapness of their investment contracts. It is not the Government's fault: what is the point of an extra £1 bn infrastructure spending when there is already a shortfall of that order?

L.5 - Inn-keepers - the FST thinks the joke is not quite right. Do you want him to try and improve it?

Q. The Financial Secretary is very content with the Chancellor's redraft of this section except for one inconsistency: the plea for lower taxes for reasons of incentive sits rather awkwardly against our presentation of the poverty trap and the taxation of the lower paid. In a way he thinks this is the place to defend the rich/poor balance of the last five budgets - on the grounds of incentive and trying to stop our best people from going abroad. He thinks that we cannot claim the same argument for the least well off with marginal tax rates of 38¾%?

EK.

E KWIECINSKI

CH/EX REF NO B(83)25
COPY NO 9 OF 22

11.3.83

SIR DOUGLAS WASS

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Cassell
Mr Kemp
Mr Moore
Mr Allen
Mr Ridley
Mr Harris
Sir Lawrence Airey - IR
Mr Fraser - C&E

BUDGET SPEECH - EIGHTH DRAFT

... I attach a copy of the eighth draft of the Budget speech. The key changes are in sections H (paras 3 and 9), I and Q.

2. The Chancellor will be doing further work on the speech over the weekend: a final draft will be circulated early on Monday.

J O KERR

583/3

BUDGET SECRET

BUDGET SPEECH: EIGHTH DRAFT

BLOCK A: OPENING

1. The longest Budget speech that I have been able to trace, Mr Speaker, was that given by William Ewart Gladstone on 18 April 1853 - it lasted approximately 4¾ hrs. The then Leader of the Opposition said of the speech: "... it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits, of course. But I can assure the House that I have nevertheless decided not to try to emulate Gladstone. Instead I shall try, as always, to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. That may be an unattainable target, but at least I can promise you that this will be my shortest Budget speech. Or at any rate the shortest so far. And that will not be its only attractive feature.

2. For I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our Medium Term Strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

3. This Budget will develop and build on the themes which have been the foundation of this Government's approach to the economy since we took office in 1979.

4. The requirement we then saw, and the country accepted, was for resolve, for purpose and for continuity. My proposals this afternoon are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to sustain and advance economic recovery, and to further the living standards and employment opportunities of all our people.

BUDGET SECRET

BLOCK B: WORLD ECONOMY

1. Already by 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent that that fresh start would have to be made in an international setting that was profoundly and increasingly unhelpful, as the effects of the second oil price shock hit home.

2. Last year output and world trade were lower than generally expected. In the major industrial economies output actually fell. And more than 30 million of their people were unemployed.

3. Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and high interest rates have led to a sharp rise in their short-term debt. They have had to cut their imports. And that has amplified the fall in world trade.

4. Now, however, there are signs that the worst of the problems of the world economy are beginning to abate.

5. Oil prices have weakened. For the world as a whole this means lower inflation, and hence an encouragement to increased activity.

6. More important still, there are clear signs that the world is breaking the inflationary habits of the 1970s. In many countries in the past year the rate of increase in prices has fallen more steeply than expected.

7. At the same time, interest rates have declined substantially almost everywhere, including, of course, here. In the United States, 3-month interest rates have almost halved from last summer's peaks, though real interest rates remain high.

8. Looking ahead, 1983 should see recovery in the major economies gathering pace as the year goes on. This should be accompanied by a recovery of world trade.

9. Even so, we cannot expect a year of trouble-free progress. Transition from a period of high inflation is bound to be uncomfortable, internationally as well as nationally. The process of adjustment by major debtor countries has to be encouraged, and world recovery nurtured and sustained.

10. There is a major task here for the international financial institutions, which deserve - indeed require - our full support. The need is not for blue-prints for new institutions, but for firm, indeed increased, commitment - political and financial - to the existing ones.

11. That is why as Chairman of the Interim Committee of the International Monetary Fund, I decided this winter to accelerate the process of agreement on an increase in the resources available to the Fund for lending to countries in difficulty. And why I pressed for a major increase. The decisions reached in the Interim Committee in February require ratification by national Parliaments - including this House . But their effect should be substantially to increase the usable resources at the Fund's disposal; and I hope that the House will share my view that this is a wholly welcome development.

12. The agenda for international discussion remains a full one. Differences in performance by individual industrial countries remain wide and create tensions which are reflected in the foreign exchange markets. The threat of protectionism, which in the long run benefits no-one, continues to grow. The efforts of the US Administration to cut back its daunting structural deficit are crucial to the prospects for interest rates and future inflation, and hence recovery prospects, for us all.

13. It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. A paradox indeed: and in truth nothing could be more dangerous for recovery.

14. Lower inflation and lower interest rates are themselves the right foundations for economic recovery, a recovery which will be healthy and sustainable. The days when Governments by spending more could guarantee to boost activity are far behind us - as the RHM for Cardiff (South-East) pointed out almost seven years ago. But lower interest rates, and lower inflation reduce costs and provide room and encouragement, within prudent fiscal and monetary objectives, for greater real growth of activity.

15. And the prospect now is for just such a recovery. It will be gradual, but it should be steady, provided that anti-inflationary gains are not thrown away. And the international consensus is that they must not be thrown away.

16. This is the heart of the strategy agreed at last year's Versailles Summit and recently reaffirmed by the Interim Committee. Carrying it through will need persistence and political will: but it is backed by a broad measure of international commitment on which we hope to build in a series of international meetings leading up to the Williamsburg Summit.

BUDGET SECRET

BLOCK C: THE DOMESTIC ECONOMY

1. At home as abroad, the need is for steadiness and resolve.

2. Government spending is being restrained. The public sector deficit, as a percentage of our domestic product, is now one of the smallest in the industrialised world. Monetary growth is towards the middle of the 8-12 per cent target range. And inflation, at 5 per cent, is lower than at any time since 1970.

3. Last year saw a surplus on our balance of payments current account of some £4 billion. In 1983 too we now expect a significant surplus. Total official external debt now stands at around $12 billion, compared with $22 billion when we took office, and is smaller in relation to Britain's trade than at any time since the second World War.

4. In our own economy domestic demand has been growing - at some 2-3 per cent a year in real terms -since the spring of 1981. This is a considerably stronger growth of demand than in most other industrial countries. Indeed, in the industrial world as a whole demand has tended to fall. With this weakness in overseas demand

and some further rise in our imports, total output in this country increased last year by only ½ per cent. This year we expect domestic demand to grow by over 3 per cent and output to rise by some 2 per cent, this is likely to be in line with, or a little faster than, the projected growth in world output.

5. I have spoken so far of output in the whole economy. For manufacturing industry too the prospects look better. After a slight fall last year, the current evidence suggests that a modest rise is likely over this year.

6. The 1½ per cent rise in consumers' expenditure between the third and fourth quarters of last year is leading to improved output performance in the consumer goods industries. Sizeable improvements have also been recorded in the electrical engineering industry. And order books and business confidence, in manufacturing industry generally, are rising.

7. Other sectors too are showing clear signs of improvement . The construction industry's orders and output rose in the second half of 1982. Housing starts in the three months to January rose by over 13 per cent on the previous three months. And between the third and fourth quarters of 1982 output in the retail sector increased by 1½ per cent. This evidence of recovery should be welcomed by all in this House.

BLOCK D: UNEMPLOYMENT

1. Unemployment, however, remains ~~intractably~~ high, even although it has been rising more slowly than in 1980 or 1981. In many other countries it has recently been rising faster than here; over the past year, for example, it went up by 1.6 percentage points in the United States, by 2.2 percentage points in Germany, and by nearly 4 percentage points in the Netherlands, as against ~~only~~ 1.4 percentage points here.

Do we need the % points

2. ~~[Defeating inflation is the key to lasting growth, and, at the same time, to creating lasting jobs that are not simply dependent on Government spending. One cannot create stable growth - one would only recreate inflation - by going all out to create jobs, no matter how unreal the jobs, and no matter what the cost to Government borrowing or to the taxpayer.]~~

Wrong place

Already used

+ Start of B

3. Facing the fact that unemployment throughout the Western world is likely to remain high for some time, we have established a full range of programmes, designed to help particularly those without jobs who are bearing the sharpest pains of the long recession. These special employment and training measures will next year bring direct help to more than 650,000 people.

4. There are four ways in which we now propose to extend this help yet further.

5. In the first place, some 90,000 men between the ages of 60 and 65 now have to register at an unemployment benefit office, if they wish to secure contribution credits to protect their pension rights when they reach 65. From April, they will no longer have to do this. Even if those concerned subsequently take up part-time or low-paid work, on earnings which fall below the lower earning limit for contributions, their pension entitlement will be fully safeguarded.

6. Next, there are some 42,000 men over 60 who are registered as unemployed and on supplementary benefit, but who have to wait a year, or until they reach 65, before they qualify for the higher long-term rate of benefit. From 1 June they will qualify for the higher rate as soon as they come onto supplementary benefit. For this purpose they will in effect be treated as if they had already reached retirement age.

7. Then, the Job Release Scheme. As the House knows, this Scheme allows men over 62 and women over 59 who so choose to retire early, and so to make room for employing someone else who wants a job. I can now announce a new scheme for part-time job release. It will apply to the same categories of older people who are

willing to give up at least half their standard working week so that someone else can be taken on for the remaining half. The allowances will be paid at half the full-time rate. The scheme will take effect from 1 October and should provide part-time job opportunities for up to 40,000 more people who are at present unemployed.

8. Fourth, enterprise allowances. These encourage unemployed people to set up in business, by paying £40 a week for their first year to offset their loss of unemployment benefit. Pilot schemes were set up in five local areas in January 1982. The response has been very encouraging and there is already evidence that many of the 2,000 or so new businesses created under the scheme are generating extra jobs. I can now announce that from 1 August to end-March 1984 enterprise allowances will be available throughout the country, within an overall cash limit of £25 million in 1983-84. Individual allowances will run on for a full year, so that the scheme will cost a further £29 million in the next financial year. The net public expenditure cost is about two-thirds of this gross cost. It should help some 25,000 unemployed people to set up in business. We shall be monitoring the scheme closely and I hope it will show a continuing benefit to the individuals and to the whole economy.

9. The gross cost of these four measures is estimated at £55 million in 1983-84 and £100 million in 1984-85. The net public expenditure cost will be much less than this - some £40 million in 1983-84 and £55 million in 1984-85.

10. These new measures will build on our earlier employment and training initatives, notably the Youth Training Scheme, providing 12 months training to almost half a million young people each year, and the Community Programme, which is intended to provide socially useful work for 130,000 of the long-term unemployed. In 1983-84 we shall be spending over £2 billion on the full range of special employment and training measures.

11. Finally there is one other matter which has, I know, been a cause of concern to Honourable Members on both sides of the House. As the House will recall, the November 1980 uprating of unemployment benefit was abated by 5 per cent. We said then that we would review the position once the benefit was brought into tax. That happened in July last year. As my rt hon Friend the Secretary of State for Social Services said when the House last considered the issue, the Government accepted in principle the case for restoration of the abatement. It is right now to redeem that pledge. In the uprating that takes place in November this year the abatement of unemployment benefit will be restored in full.

BUDGET SECRET

BLOCK E: INFLATION

1. But it is not enough simply to mitigate the effects of unemployment. It is our purpose as well to secure a sustainable growth in job opportunities. So we must look for a larger share of rising demand -demand that is rising in Britain as well as overseas - to be translated into British output and British jobs.

2. Progress on inflation is crucial to the prospects of higher output and lower unemployment. Inflation was on a rising trend when we came to office. It peaked at some 22 per cent in 1980. The reduction since then has been dramatic, with retail price inflation now down to 5 per cent. The benefits of this transformation are felt throughout the country; and it is widely recognised that it results from the firmness and consistency of the policies we have pursued in the past four years.

3. We shall not change course. Downward pressure on inflation will be maintained. With the lower ~~fall in the~~ exchange rate a temporary ~~some~~ check in our progress ~~now~~ is unavoidable. In the fourth quarter of this year inflation in retail prices may temporarily be running at about 6 per cent, a little above what it is now, but still substantially below its level of a year ago. And it seems likely that the

underline in delivery

GDP deflator - which is a measure of prices across the whole economy -will show a continuing fall from 7 per cent in 1982-83 to 5½ per cent next year.

Less than perfect leadin

4. High inflation destroys savings, impairs efficiency and undermines stability. So lower inflation is good in itself. And it also underpins a return to lasting growth and new jobs in this country, as in the world economy as a whole.

5. Lower inflation will lead to higher real demand and output, provided we hold to the Medium Term Financial Strategy. Lower inflation helps consumer spending, as savers no longer have to put aside so much simply to maintain the real value of their capital.

6. Lower inflation encourages higher spending by companies, both on stocks and on investment. For lower inflation contributes to lower interest rates, so improving cash flow. And low inflation helps keep down other costs. This is one reason why industrial profitability, though still by historic standards very low, has begun to recover, which should encourage new investment and the creation of new jobs.

7. Lower inflation and interest rates also ease the burden of mortgage interest, helping house buyers and in turn house building.

8. With lower inflation the cash programmes of the public sector go further: they buy more in the way of goods and services.

9. Lower inflation and interest rates have contributed to the fairly strong growth in real demand in the British economy over the past two years. Demand in overseas markets has of course remained weak. Now that world inflation is much lower the level of world demand too should rise over the next year. With continued success against inflation we should see a revival of markets abroad as well as continued growth of markets at home.

10. Low inflation here provides the right framework for further progress in securing the improvement in Britain's economic performance needed to reverse the long years of relative decline. It will contribute to a climate of stability in which markets can operate more efficiently; and businesses can plan ahead with more confidence.

11. Finally, of course, inflation has long been the enemy of good sense in pay bargaining and so too the enemy of jobs. The understanding that Government will not finance higher inflation, has done much - though still not enough - to bring commonsense back into wage bargaining. The way in which excessive pay increases destroy jobs is now much more widely understood. So too is the case for higher productivity, which over the last two years, has improved in manufacturing industry by some 13 per cent.

12. More moderate pay settlements, combined with improved productivity are two of the reasons why last year, in a shrinking world market, British manufacturers succeeded in enlarging their market share. There is some way to go. Still lower pay settlements and still higher productivity remain vital to our competitive position. Provided they come through, British business is now better placed than for many years to make inroads into markets at home and overseas.

13. And provided we go on achieving success against inflation. Today's unemployment was fostered by long years of high inflation. And by failure to tackle it soon enough. And by failure to keep up the fight. We shall not make those mistakes.

NP

Tacain 2+3

14. The trend of rising inflation that has appeared irresistible in recent years has now been decisively broken. We are now certain to be the first Government for a quarter of a century to achieve a lower average level of inflation than did its predecessor. In the next Parliament it will be our purpose to do even better.

BLOCK F: MONETARY POLICY

1. One weapon we shall certainly continue to use is effective monetary policy. That monetary policy has a key part to play in the fight against inflation is recognised by the markets and by governments abroad; and it was, of course, and rightly so, a pillar of the last Government's counter-inflation policy, however much they may deny it now.

2. In judging monetary conditions we look at the measures of money supply and at other financial indicators such as the exchange rate, real interest rates, and of course at progress in reducing inflation itself. The Red Book, - always an alluring document, but now in even more readable format to match the Autumn Statement - includes a full discussion of these matters. I shall summarise it only briefly now.

3. Since the last Budget, financial conditions have developed much as envisaged. In the year to February, the growth of all three target aggregates was within the target range of 8-12 per cent. Other financial indicators also pointed to moderately restrictive monetary conditions. As in other industrial countries, real interest rates remained high throughout the year.

4. But with the satisfactory development of financial conditions and rapid progress in reducing inflation a significant fall in interest rates was possible. By mid November, short term rates had fallen to 9 per cent. They subsequently moved up to around 11 per cent, but they are still very substantially below the 16 per cent of November 1981.

5. For most of the year the exchange rate was strong. The weakening in November and December seemed mainly to reflect external factors such as concern about oil prices and sharp movements in the world's other major currencies. Opposition statements and election uncertainties may have also played a part in currency movements, here and abroad.

6. But what is certain is that laxity in the Government's financial policy played no part. On the contrary, our monetary and fiscal objectives were achieved. Provided we continue to meet them - and we have every intention of doing so - our policies give no reason to expect a lasting rise in inflation from the fall in the exchange rate that has taken place.

7. The lower exchange rate will give industry an opportunity to improve its competitiveness; but only if other costs are tightly restrained. I make no apology for repeating that this means above all still greater moderation in pay bargaining. Without that, the fall in

the exchange rate would bring only a temporary improvement to our competitive position. It would offer no long-term help in providing a sustainable basis for the improvement in output and employment that is now within our grasp.

8. That is why I cannot emphasise too strongly our view that devaluation brought about by monetary and fiscal laxity and sought as a deliberate act of policy is sheer folly. It would be a signal to the world of a willingness to accommodate rising inflation - an inflation that would undoubtedly be fuelled by demands for higher wages to offset its effects. Confidence would collapse. And jobs would be destroyed.

9. That is not the way we intend to go. That is why, by contrast, last year's Medium Term Financial Strategy again set out a declining path for monetary growth in future years. After growth of 8-12 per cent in 1982-83, a target of 7-11 per cent was suggested for 1983-84. I confirm now that the 1983-84 target will indeed be 7-11 per cent. Once again it will apply to both broad and narrow measures of money, though, as I said last year, M1 may for a time grow rather faster than indicated by the range. Given the prospect for inflation this range gives scope for a healthy rise in output.

10. The establishment of the Medium Term Financial Strategy has been more than justified by its value as a

framework of fiscal and monetary discipline. Another innovation has similarly proved its worth: namely our decision to diversify our funding policy.

11. We have made available indexed as well as conventional assets. And we have secured a larger contribution from the personal sector in the form of National Savings. I intend to continue this policy.

12. The Department for National Savings is close to achieving this year's target of £3 billion. For the coming year, I am again setting a target of £3 billion. Nearly £2 billion worth of indexed gilts have been issued over the past year and it has been possible to dispense almost completely with long term fixed interest stocks, which has helped bring long rates down very nearly as much as short rates. ~~[This should pave the way towards a reopening of the corporate bond market.]~~

Too strong

BLOCK G: PUBLIC SECTOR BORROWING

1. Control of money needs to be supported by firm control of public sector borrowing. Otherwise the result is to push up interest rates, and create strains that sooner or later prove intolerable. Other countries understand this. All too many have had to learn the hard way.

2. A substantial reduction in the trend of public sector borrowing over the medium term is a necessary part of the process of reducing inflation. We have made good progress. During the latter half of the 1970s, public borrowing represented, on average, about 6 per cent of Gross Domestic Product. In 1975-76 the figure was nearly 10 per cent. By 1981-82 it had fallen to 3½ per cent of GDP.

3. For the year now ending I budgeted for a public sector borrowing requirement of £9½ billion. The outturn is likely to be rather lower not least because oil revenues have been very substantially larger than expected. The latest estimate suggests an outturn of about £7½ billion - or 2¾ per cent of GDP. However, the year is not yet over, and there are still large sums on the expenditure side yet to be spent, and on the revenue side to be collected. So this year's outturn figure is still subject to a considerable margin of error.

4. For 1983-84 last year's Budget Statement suggested a PSBR of 2¾ per cent of GDP as consistent with the desired trend to lower borrowing. That is equivalent to about £8 billion at the level of money GDP now forecast. In judging whether that figure is still appropriate, I have taken account of developments over the past year, and of the main uncertainties which now confront us. On interest rate grounds, there is a clear case for continued fiscal restraint. Interest rates, though lower than they were, are still undesirably high both in nominal and in real terms. The fact that the exchange rate has now moved to a lower level eases the financial pressures on companies.

A curious sentence

At the same time it is important not to offset the easing of fiscal and monetary conditions that lower inflation produces within the financial framework we have set.

5. I have also had to consider the implications of the recent fall in oil prices and the continuing uncertainty about future oil prices. In the last few weeks the price of North Sea oil and the official term prices of OPEC crudes have both fallen. These moderate ? falls are to be welcomed. It is worth recalling that in 1979-80 the world price of oil rose by more than 2½ times, and that it was this sharp rise, coming in the aftermath of the 1973 surge, that triggered off the deepest economic recession the world has experienced since the war.

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6. Of course a fall in the oil price reduces the value of our own oil production. But oil accounts for only 5 per

cent of our National Income; and the health of a much larger part of our national economy depends on the state of the world economy. Lower oil prices and lower inflation abroad means lower prices here. A more prosperous world will in time mean more output and jobs in Britain.

7. But, on the strictly budgetary front, a further cut in oil prices could affect the balance of revenue and expenditure, and I have to take this into account. [Up to a point it would be right to let the public sector deficit absorb the effects of the lower prices at least for a time. Enhanced international demand, and reduced costs at home, should reduce corporate borrowing; which should make it possible to accommodate a larger PSBR without upward pressure on interest rates or money supply.] It would plainly be wrong, as well as impractical, to react to every change in the oil market by changing taxes. Nonetheless, if any further reduction in oil prices seemed likely to compromise the success of our economic strategy, I would be ready to take appropriate corrective action.

delete

8. Taking these factors into account, I have decided to hold to the previous plan, and provide for a PSBR in 1983-84 of 2¾ per cent of GDP, that is £8 billion.

9. Last autumn, I announced measures with a revenue cost of some £1 billion in 1983-84. Most of this was

directed to reducing the burden on private industry and commerce. It included a cut in the National Insurance Surcharge.

10. After allowing for that, and for the other changes announced in November, the latest forecasts suggest that a borrowing requirement of £8 billion in 1983-84 permits further real tax cuts with a cost to the PSBR of some £1½ billion. That is therefore the scale of my proposals this afternoon.

11. The Red Book gives revénue and expenditure projections for the period up to 1985-86. These allow for a further reduction in public sector borrowing as a percentage of GDP over the medium term. There is, of course, no certainty about the precise figures. But they show how lower borrowing can be combined with lower taxes, and reductions in inflation and interest rates. As was indeed illustrated by my last Budget, [and its practical effects.]

BLOCK H: PUBLIC EXPENDITURE

1. Central to the restraint of borrowing is the restraint of public expenditure. And the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance.

2. The House debated last week the public expenditure White Paper which set out our plans for the years to 1985-86. Public expenditure is being held within the levels set in earlier plans. The ratio of public expenditure to GDP has been reduced from 44½ per cent in 1981-82 to a planned 43½ per cent in 1983-84. This ratio is the measure of the burden which public expenditure places on the rest of the economy. That burden is now being reduced.

3. In working to get and keep public spending down we have been helped by another important institutional innovation which we have introduced: cash planning. Improved control of expenditure has been an essential factor in making possible the tax reductions I am announcing today.

4. I shall also be announcing additions to certain public spending programmes; but they will all be met from the

Contingency Reserve; and so will not add to the planned total of expenditure.

5. We have also maintained a strict control over the running costs of Government itself, in particular, manpower. By the end of this month we shall have reduced the numbers of the Civil Service to 652,000 - a fall of 80,000 since 1979. [This represents a saving this year of almost £600 million in the Civil Service pay bill.] A further reduction to 630,000 by April 1984 is planned. The target we set ourselves on taking office, and which some thought unattainable, is thus now within reach. Civil Service numbers will by next year be lower than at any time since the War.

BLOCK I: Social Security

I now turn to social security. This is much the biggest single element in public expenditure - more than one quarter of the total. About half of social security expenditure is on benefits for pensioners.

2. The House will remember that the effect of last year's uprating of social security benefits was an over-provision of 2.7 per cent. This happened because inflation fell faster than expected. In effect, therefore, beneficiaries received an advance payment of part of the increase due this year, and I announced last autumn that there would accordingly be an adjustment of this year's uprating. The effect of the proposal I am about to make is that part of last year's over-provision will be allowed for in this year's uprating, and that part will be left with the beneficiaries.

3. To leave the whole of this over-provision in place would mean very substantial costs in future years. These costs would have to be borne very largely by contributors. Ever since the Beveridge report our system has been based on the contributory principle. And rightly so. For that principle

requires us all to take account of the effect of benefit increases on the working population, who pay the contributions, and who have seen them increase substantially over the years: indeed, only last November we had to announce further increases in National Insurance contribution payments which take place from next month.

4. As the House knows, since 1976 upratings have been based on what is known as the forecast method of uprating. That is, they are based on a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place in the following November.

5. But this method has not worked well. A forecast is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981 - when a 2 per cent under-provision was made good the following year - and others such as 1980 and 1982 when there has been over-provision. (The 1980 over-provision was of course corrected in full.) And in every case there has necessarily been a year's delay before the error of the previous year could be put right.

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6. The system of trying to forecast inflation is a fragile basis for calculations of such importance to millions of our fellow citizens. There have therefore been suggestions from pensioners' organisations that we should restore the more certain system that prevailed until the party opposite withdrew it, in order to make savings, in 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices rather than on what might happen in future if we got our forecasts right. I have decided to accede to this advice.

7. From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.

8. The uprating this November will be based on the rise in prices in twelve months to May of this year. That figure will be announced on 17 June. We have chosen May because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.

9. The uprating will be based on whatever the May figure turns out to be. At this stage, of course, I cannot say exactly what that figure will be.

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But it seems likely to be in the region of 4 per cent. It is therefore likely that benefits will be increased by significantly more than would have been the case had the old system been retained - with an adjustment made to take full account of the amount of last year's over-provision. Linked public service pensions will be raised in November by the same percentage. For unemployment benefit the increase will be in addition to the restoration of the 5 per cent abatement which I have already mentioned.

10. Between the November upratings of 1978 and 1983 prices are likely to have risen by some [67 per cent] and pensions by some [72 per cent]. Our pledge to maintain the value of the pension over the lifetime of this Parliament will thus have been more than fulfilled.

BUDGET SECRET

BLOCK J: CHILD BENEFIT

1. The social security provision which is most important to working families particularly those with low incomes, is Child Benefit. It plays an important part in easing the unemployment trap and so in our strategy of improving incentives for everyone.

2. For this reason I am glad to be able to tell the House that from November 1983 the rate will be increased from £5.85 to £6.50. One parent benefit will be correspondingly increased to £4.05. On the basis of our inflation forecast, both benefits will be worth more than ever before. I know that the House will welcome this very warmly.

BLOCK K: OTHER BENEFITS, AND CHARITIES

1. I have described the help we plan to give to the unemployed, to working families and to one parent families. This Government also gives special priority to help for the sick and disabled, and for widows. I am proposing further measures to increase that help.

2. In my first Budget I exempted from tax war widow's pensions and widow's child dependency allowances. In 1980 I introduced a bereavement allowance to benefit widows in the tax year of their husband's death. However, because their income in that year is already covered by other allowances, many newly widowed women receive no financial benefit from that allowance. Accordingly, it will now be extended to cover the year after the husband's death as well, at a cost of some £30 million in a full year. This change will more than double the number of widows benefiting from the bereavement allowance.

3. We also intend to provide significant new help for about 55,000 invalidity pensioners. Until now this vulnerable section of our society has, through the so-called "invalidity trap", been excluded from receiving the long term rate of supplementary benefit. I announced

earlier that the unemployed over 60 will now be entitled to the long term rate. We are extending that to the sick and disabled over 60. In addition I am glad to be able to tell the House that we also intend to amend the regulations so that people under 60 who have been on incapacity benefits for a year will qualify for the long term rate. This will get rid of the so-called invalidity trap. And quite right too. There will also be an increase from £20 to £22.50 in the amount which disabled and chronically sick people can earn before their benefit is reduced.

4. While we need to ensure that social security benefits go to those most in need, I am concerned that we should not discourage people from saving. We shall therefore increase from £2,500 to £3,000 the limit above which savings disqualify people for supplementary benefit. There will be an additional disregard of £1500 for the surrender value of life assurance policies. And we shall also increase to £500 the corresponding limit for single payments of supplementary benefits to help with exceptional expenditure.

5. We also propose to replace the vehicle scheme for war pensioners with a cash allowance at a rate which will continue their traditional preference over civilian benefits.

6. These measures, taken together with the increase in child benefit and one parent benefit and the ending of the abatement of unemployment benefit, add £101 million to the social security programme in 1983-84 and £286 million in 1984-85. That comes on top of the cost of the extension of the long term rate of supplementary benefit to the over 60s to which I referred earlier.

7. But caring means more than cash. Many of the key needs, for example, of the elderly, are met by voluntary groups and charities. If they are to do all they can, we must help the helpers.

8. Once again we have been pressed to reimburse charities for VAT on their taxable purchases. But, however exhaustively and sympathetically we examine this proposal, the difficulties remain and cannot be swept aside. I have of course been able in previous years to extend VAT reliefs for the disabled and charities servicing them. But a VAT refund scheme would be expensive to operate and indiscriminate in its effects, benefiting not only those charities who do valuable work in the community but also - and sometimes disproportionately so - many other bodies with very limited or controversial aims which do not command public support. So, as before, I have been forced to conclude that we are right to channel our help in other ways.

9. And we do intend to give charities all the help we can. In 1980 I introduced substantial new tax relief for covenanted donations to charities, by allowing relief against higher rates of income tax up to a ceiling of £3,000 a year; and last year I increased the limit on exemption from capital transfer tax for gifts made within a year of death from £200,000 to £250,000. I propose now to carry these 2 measures further by raising to £5,000 the ceiling on higher rate relief for gifts made by deed of covenant and by abolishing the ceiling on exemption from capital transfer tax for charitable bequests. All outright gifts and bequests to charities will now be entirely free from CTT.

10. I have had representations about the position of companies who would like to second their staff with pay, to charities. At present the employee's salary is not allowable for tax because it is not an expense incurred by the company wholly and exclusively for the purpose of its business. For normal business expenses we must continue to stick to that general principle. But I am satisfied that it is right to make an exception in this limited case, so that the tax rules do not hinder valuable gifts of skills and experience. Companies which lend staff to work for charities and continue to pay their salaries will now be able to treat the cost as an allowable expense for tax purposes.

BLOCK L: HOME OWNERSHIP, HOUSING AND CONSTRUCTION

1. I come now to housing and the construction industry. The whole House is, I know, anxious to see more done in this direction. Within the public expenditure plans there is provision for expenditure on construction in 1983-84 of over £10 billion, a 10 per cent increase on the previous year's expected outturn. We want this money used for the purpose for which it is intended. To help with this we shall be making certain changes in the rules.

2. One of our highest priorities has always been the extension of home-ownership. This Government has done more than any other to encourage this. Since we came to office almost ½ million public sector tenants have bought their homes; and the fall in mortgage rates over the past year has made it easier for first time buyers to meet the costs of a mortgage.

3. But it is now clear that the £25,000 limit on mortgage interest tax relief is beginning to hinder a growing number of families who want to buy their first home. I have therefore decided to increase the limit to £30,000. This will cost some £50 million in 1983-84: it will help potential homeowners and the construction industry alike. At the same time I intend to remove an

anomaly whereby a borrower may get tax relief in excess of the ceiling for both an ordinary mortgage and an interest free loan from his employer.

4. I also propose to extend mortgage interest relief of the kind already enjoyed by many employees, whose duties prevent them living in their own homes, to self employed people, like tenant farmers and tenant licensees, who have a contractual requirement to live in accommodation provided for them but who are also buying their own homes. This will be accompanied by a similar extension of the capital gains tax relief applying to a private residence.

5. [Let me explain that I am not, by this relief to tenant licensees, widening the scope of Government policy to transfer public housing to private ownership. Some Public Houses have their attractions. My aim is simply to help tenant inn-keepers buying their own homes elsewhere.]

6. We want to help people not only to own their own homes but also to keep them in good repair. Last year I announced a major attack on disrepair by increasing the rates of repairs grant. This has proved very successful indeed. Expenditure in 1982-83 will be twice that in 1981-82 and a further increase is expected this year.

7. We have already announced that the higher rates are to continue until the end of 1983-84. And local authorities have already been told they may spend without limit on all improvement grants next year. To ensure that we get the greatest impact from this initiative, the limits on expenditure eligible for grant will be increased by 20 per cent.

8. Our main aim, of course, is to help people to help themselves. But there are some areas, particularly in the Inner Cities, where decay in the private housing stock is so bad that concerted action is needed. We are encouraging local authorities to tackle such areas by the process known as enveloping - where the authority repairs the external fabric of whole terraces or streets of houses on behalf of the owners. This has proved a cost-effective way of improving an area, and we will be allowing local authorities to undertake additional expenditure in 1983-84 on any approved enveloping scheme.

9. These two measures are likely to lead to additional expenditure of some £60 million in 1983-84. In addition my RHF the Secretary of State for the Environment is today announcing further measures to encourage local authorities to make full use of the resources available to them for capital investment.

10. I myself can announce three further steps to help the construction industry.

11. First, in 1981 I introduced a scheme to defer Development Land Tax on developments for the owners' own use. The scheme, which is due to end in April 1984, has proved valuable. I propose, therefore, to extend it to April 1986, at a cost of £4 million in a full year.

12. Secondly, stock relief will from today be available for houses accepted by builders in part exchange on the sale of a new house for the personal use of an individual or his family. This reflects current developments in the industry and will cost £5 million in a full year.

13. Third, I propose to increase from 10 per cent to 25 per cent the proportion of office space in buildings qualifying for the industrial buildings allowance - an allowance which I increased in 1981. The cost will be about £25 million in a full year.

14. Coming on top of measures in my last three Budgets providing help worth some £350 million including substantial relief on Stamp Duty - the effect of the new measures I have announced should give a substantial boost to the construction industry. Some of them, on their own, might seem small beer, though not to inn-keepers.

BUDGET SECRET

BLOCK M: INDIRECT TAXES

1. Which brings me, of course, to the excise duties and other indirect taxes.

2. I propose no change in the present rate of VAT.

3. In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes.

4. This year too I intend to follow the same approach. But our success in reducing inflation means that the increases I shall be announcing will be much smaller than in recent years. The additional revenue I shall be seeking from duty changes this year is about half of the comparable figure in 1980 and 1982 and about a quarter of that in 1981.

5. I start with the duties on alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25 pence on a bottle of spirits, 5 pence on a bottle of table wine, 7

pence on a bottle of sherry and one penny on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of one penny a pint.

6. As for tobacco, I propose to increase the duty by the equivalent, including VAT, of 3 pence on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco which is of particular interest to pensioners. These changes will take effect from midnight, Thursday.

7. Next, the oil duties. I am conscious of the concern felt by a number of my hon Friends about the effects of increases in the duties on petrol and derv. But at a time when world oil prices are falling it would not be right to allow the real value of the duties to be eroded significantly. I propose therefore to increase the duty on petrol by about 4p a gallon including VAT. In the case of derv I propose an increase, including VAT, of about 3p a gallon. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight.

8. As in the last two years, I propose no change in the rate of duty on heavy fuel oil. The real burden of this duty will thus have been reduced since 1980 by some 20 per cent. This will be of considerable continuing

assistance to industry, since it will help to hold down its energy costs.

9. I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly. In order to bring the rates of duty more nearly into line with the costs the various categories of lorry impose on the road system I propose to increase the duty on some 190,000 heavy vehicles. This means that I shall, on the same lines, be able to reduce by approximately 10 per cent the rates of duty on some 315,000 lighter commercial vehicles. These changes will take effect from tomorrow.

10. The total effect of all the changes in excise duties will be to raise additional revenue of some £600 million a year. But let me emphasise again that this implies virtually no change in the real burden of indirect taxes in 1983-84. The immediate effect will be to add about 0.4 per cent to the overall level of prices. This has, of course, been fully taken into account in the price forecasts which I have given to the House.

BLOCK N: NORTH SEA OIL REGIME

1. I come now to North Sea tax. The development of the North Sea is an achievement of private enterprise and the result of a huge co-operative effort involving hundreds of companies and thousands of people. We want this to continue, despite changes in oilfield economics. Tax is not the only factor. Steps taken by the industry to cut costs, and the future level of oil prices, will be at least as important. But the fiscal regime must adapt as well.

2. I am therefore proposing a substantially more favourable regime to assist the companies as they move on to develop new fields, together with a package of relief on current fields to help finance new activity which will be worth more than £800 million over the next 4 years, starting with £115 million in 1983-84.

3. To encourage further exploration and appraisal, I propose immediate relief against Petroleum Revenue Tax for expenditure incurred after today in searching for oil and appraising discovered reserves.

4. For future fields I propose two important new incentives. First, the oil allowance will be doubled for

them. Second, my rt hon Friend the Secretary of State for Energy will be taking steps to abolish royalties for such fields. These changes will apply to future fields where development consent has been given on or after 1 April 1982, with the exception of the relatively more profitable Southern Basin and onshore fields. I am ready to discuss with the industry whether there is a need to extend these incentives to the Southern Basin fields. If I were to be persuaded of the need, any extension would be backdated to development consents issued after today.

5. Most existing fields make good profits. But to improve current cash flow, I have decided progressively to phase out Advance Petroleum Revenue Tax. As a start, the 20 per cent rate will be reduced to 15 per cent from 1 July, and APRT will disappear completely by the end of 1986.

6. An Inland Revenue press release will give further details, and also describe other proposed changes in oil taxation. They include, following the Consultative Document published last May, proposals on PRT reliefs for expenditure on shared assets such as pipelines, and for charging related receipts. The proposals will give significant additional relief on expenditure and will exempt tariffs on half a million tonnes of oil a year from each field using a pipeline. This will encourage the shared use of these assets.

7. I believe that my proposals will provide the industry with the right fiscal incentives for the further successful development of the country's North Sea resources.

BLOCK O: BUSINESS - NIS, CT, INTERNATIONAL BUSINESS

1. From one key industry I turn now to business and industry as a whole. Our living standards and jobs depend on our ability to sell and compete, producing the right goods and services at the right time and the right price. The main responsibility for achieving this lies with industry and commerce. But Government can help by reducing the burdens it places on business.

2. These can be twofold. High inflation and excessive public borrowing has in the past kept interest rates and business costs higher than they need have been. We have made progress on putting that right. But Government also imposes direct burdens on business, and here too we have acted to help cut costs. I have given high priority to reducing the National Insurance Surcharge (NIS), the tax on jobs first introduced and then increased by our Labour predecessors.

3. [I suppose that, to be scrupulously fair, I ought in fact to point out that NIS - or at least its increase - was a child of the Lib/Lab pact of 1977. A child of unmarried parents, in short - so I'm not sure what I should call it. What is clear is that, though there have since been some changes of partners, none of the parties on the benches opposite can deny responsibility for it.]

4. In last year's Budget I cut NIS from 3½ per cent to 2½ per cent. In November I announced that, for 1983-84, the rate would be further cut to 1½ per cent. On top of this I made special arrangements to enable half of that cut of 1 per cent to be brought forward into 1982-83.

5. I now propose that the rate be reduced from 1½ per cent to 1 per cent from August 1983. As before, the benefits will be confined to the private sector. This cut is worth another £215 million in 1983-84 and nearly £400 million in a full year.

6. The surcharge was 3½ per cent when this government took office. We are now well on the way to abolishing it. The reduction from 3½ per cent to one per cent will be worth nearly £2 billion to private business in a full year.

7. On Corporation Tax, a Green Paper was issued over a year ago. I am grateful for the many thoughtful responses. They raise a wide range of issues which we have examined carefully. But there is one impression that stands out.

8. This is the overwhelming desire on the part of industry for stability in the Corporation Tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements. As regards

the taxation of inflationary profits, I await the outcome of the accountancy profession's further considerations.

9. There are however some useful changes on which I can make a start today.

10. At present, advance corporation tax can be carried back two years to be set against corporation tax. I propose to extend this over a period to six years. I also propose that the incidental business costs of issuing acceptance credits and of issuing certain convertible loan stocks should be allowable expenses for corporation tax purposes. There are other areas where we need to make progress, including the tax treatment of groups and capital allowances for the mineral extraction industries. I am authorising the Inland Revenue to look further at these issues, and to consult on them where necessary.

11. On the taxation of international business, I have considered carefully the responses to the latest round of consultation. I have decided not to proceed this year with measures concerning company residence and upstream loans. Both need further consideration.

12. On tax havens, however, I propose to move clauses which take account of the recent consultations. These will not come into effect until April 1984.

13. This change should be considered alongside one other proposal that flows from the Corporation Tax Green Paper. At present credit for foreign tax on overseas income is only allowed against such part of a company's corporation tax liability as remains after deduction of ACT. As a result of representations received in response to the Green Paper, I propose that from April 1984 this double tax relief should be allowed against the full corporation tax liability before ACT is deducted.

14. As I have said, my proposals on tax havens and on ACT and double tax relief have to be seen together. Between them they will not involve any increase in the total burden of tax on international business. But they do mean a switch in the tax burden away from those who remit profits home and towards those who accumulate surplus cash balances in tax havens overseas. I am sure the House will agree that this is right.

15. To turn to a different area, I announce each year the future scale rates for measuring the benefits from company cars. Recent increases have been at a rate of 20 per cent, but the levels still fall short of any objective measure of the true benefit. This year I am proposing further increases with effect from April 1984; but they will be held to about 15 per cent. The same increase will apply to the new car fuel scales which come into operation next month.

16. I have also decided to legislate to bring into tax the benefit from scholarships provided by employers for the children of their higher paid employees. There will be a transitional exemption to ensure that parents will not be taxed on awards made before today.

17. I propose too to remove an anomaly by which some people have their tax bills artificially reduced because their employers do not account for PAYE at the right time and then pay over too little. I also propose with effect from April 1984 to increase substantially the tax measure of the benefit gained by an employee who occupies rent-free or at a very low rent more expensive accommodation owned by his employer.

18. The House will be aware of instances of tax avoidance through the exploitation of group relief, and through the exploitation of so-called second hand bonds. I propose legislation to deal with these abuses and also to improve the arrangements for collecting DLT on disposals by non-residents.

19. And now a word about banks. I said last year that we would be giving further thought to the problem of how best to ensure a sufficient contribution to tax revenues by the banking sector. I have examined the position with great care and have concluded that it would not be sensible now to take action which might weaken the Banks. There will therefore be] ~~[and I am still not~~

convinced that it is entirely satisfactory. But the conclusions to which this might normally have led have to be tempered by the international and domestic pressures on the banking system. UK banks are certainly in a stronger position to deal with these pressures than are banks in some other countries. But it would still not be sensible to take action which might now weaken them. I have therefore concluded that there should be] no tightening this year of the tax regime for banks.

20. Finally for the company sector, I propose some changes that will bring real help to small companies. At present the small companies rate of corporation tax is 40 per cent and applies to taxable profits up to £90,000. The 52 per cent rate is payable at £225,000. Between these two figures, profits are subject to a marginal rate of 60 per cent. I propose to reduce the 40 per cent rate to 38 per cent, to raise the lower limit of £90,000 to £100,000 and to raise the upper limit from £225,000 to £500,000.

21. When this Government came into office the marginal rate stood at just over 66 per cent. The changes that I am proposing today will bring it down to 55½ per cent - only a little above the main 52 per cent rate. These changes will concentrate the help that I can give on the many small and medium-sized enterprises with taxable profits of up to £½ million.

22. The cost of these Corporation Tax changes for smaller companies will be £40 million in 1983-84 and £70 million in a full year.

BUDGET SECRET

BLOCK P: ENTERPRISE

1. Small and medium sized enterprises are indeed a major source of new wealth for the nation and, above all, of new jobs. I shall, therefore, propose today a series of measures which will foster their growth, greatly extending the measures I have already introduced, and whose results are already evident. Britain is now said to offer a more attractive tax environment than Germany for venture capital and for the micro-electronics revolution. This was not so five years ago.

2. I now propose further action in a number of areas.

3. I want more people to share in the ownership of the companies for which they work. It is both a good incentive and a good way for people to build up a capital stake. The measures so far introduced have already brought us to the position where about a quarter of a million employees receive shares each year.

4. We must do better still. I want to make the Employee Profit Sharing Scheme more attractive and more flexible, while still open to all employees. I therefore propose that companies may give shares each year to employees to the value of £1250, or to the value

of 10 per cent of their earnings, up to a maximum of £5000. This new freedom will provide still further encouragement to management, upon whom so much depends.

5. Share options for senior managers also provide an important incentive. Last year I introduced arrangements to spread the income tax burden that can arise when an option is exercised. I propose this year to increase the instalment period from three years to five years.

6. Save As You Earn linked share option schemes already cover over 100,000 employees. The monthly limit on contributions with tax relief now stands at £50. In order to encourage further growth I propose increasing it to £75. The total cost of all these share incentive measures will be £20 million in 1983-84 and some £35 million in a full year.

7. I also want to ease the difficulties when the employees of a company seek to buy the business for which they work. The transformation that followed the employee buy out of the National Freight Company shows how valuable this can be. In order to help those who borrowed to take part in this buy-out, and to encourage similar success I propose that where an employee controlled company is being set up the employees should benefit from interest relief on loans they take out to buy shares in it.

8. Capital taxes can suffocate enterprise. Last year we took the major step of indexing capital gains. It is clearly appropriate to provide a period of stability to let the new structure settle in. We have already announced that administrative measures will be introduced to help large institutional investors. I now propose that, as the legislation provides, the annual exempt amounts for individuals and for trustees should be increased in line with inflation. The small gifts exemption, which is now of little practical significance, will be withdrawn. And I propose to increase to £20,000 the limits on the relief for small part disposals of land and for residential letting.

9. I propose to double the present retirement relief, raising it to £100,000. This will further encourage entrepreneurs to keep money in their business where it can work to best effect. There are, however, features of this relief which are unsatisfactory, and I am therefore authorising the Inland Revenue to consult about these wider aspects over a longer timescale.

10. The cost of all these CGT measures will be £15 million in a full year. There will be no cost in 1983-84.

11. On capital transfer tax, I propose to increase the threshold and rate bands broadly in line with indexation. As a result the threshold will rise from £55,000 to £60,000.

12. I am particularly concerned that the prospect of capital transfer tax may still discourage those who are contemplating investing capital in small businesses. It may also be one of the factors reducing the number of farms available for letting. I therefore propose to increase relief for minority shareholders in unquoted companies and for let agricultural land from 20 per cent to 30 per cent.

13. The cost of these changes in capital transfer tax will be £20 million in 1983-84 and £55 million in a full year. Other minor changes to CTT and CGT are set out in Inland Revenue press notices.

14. I propose two other measures to help small firms. The VAT registration threshold will be increased with effect from midnight tonight from £17,000 to £18,000, at a cost of £5 million in a full year.

15. And I propose to increase from £200 to £1,000 the de minimis limit for assessment of investment income apportioned to the members of a close company.

16. Now, innovation and technology. I have already announced an increase in the proportion of office space in buildings qualifying for the industrial buildings allowance. This additional flexibility will be of particular value in the high technology industries, which often need relatively large amounts of space for design and computer based

activities. It will cost about £25 million in a full year. On the tax side I also propose to extend the 100 per cent first year allowance for rented teletext receivers until May 1984, and for British films until March 1987. The cost of these two measures will be £30 million in a full year.

17. On the public expenditure side, I propose a range of measures for the encouragement of industry and enterprise worth £185 million over the next three years.

18. The West Midlands have been particularly hard-hit by the current recession. Small engineering firms are even more important in that region than in other parts of the economy. They need help to modernise and re-build their strength. I propose, therefore, to make available an extra £100 million over the next 3 years to enable my RHF the Secretary of State for Industry to re-open the Small Engineering Firms Investment Scheme.

19. The Scheme is already a proven success: 1750 applications were received last year and more than 1400 offers of assistance have been made. It is open to qualifying firms in any area; but, as one would expect, a high proportion of the first allocation went to firms in the West Midlands. The new, and much larger, allocation will I hope be of substantial further help to the region, as well as to small engineering firms generally.

20. In the field of information technology, further assistance will be available to enable firms to evaluate the benefits of computer aids for production management, and for the development of innovative software products.

21. At the moment grants are available for research and development but there is no special facility for encouraging the marketing and investment stages of the innovation process. To fill this gap a new scheme will be introduced, which will be of special value to small and medium-sized companies.

22. There will also be an increase in expenditure on Department of Industry's manufacturing & design advisory services. These provide small firms with a free introduction to private sector consultancy services, and have proved highly successful.

23. My Rt Hon Friend the Secretary of State for Industry may have an opportunity, at a later stage in this debate, to describe these measures in more detail. Taken together with measures previously announced, they will mean that government assistance on new technology and innovation will have doubled since the Government took office.

24. Last year I extended the small workshop scheme by two years for very small industrial units. The scheme is proving very effective in promoting the provision of

premises for new businesses. This year I want to encourage the conversion of more old buildings into thriving workshops: I propose to allow all such units in a single converted building to qualify for 100 per cent first year allowances if on average they meet the size requirements.

25. Now I come to the important matter of <u>finance</u> for business, on which I have major improvements to propose.

26. Companies and monetary policy alike would both benefit from a revival of the corporate bond market. Lower long term interest rates are the key to this. But there are also a number of ways of giving companies greater flexibility in the nature and timing of the bonds they issue.

27. A consultative document on deep discount stock was issued on 12 January. It set out a range of options, including an accruals basis of taxation as in the United States. I am grateful to those who responded.

28. There was considerable support for an arrangement under which the borrower would get relief on an appropriate accruals basis while the investor would only pay tax at redemption or on sale. I propose to legislate to this effect.

29. Companies will still be able to issue conventional or indexed bonds. My proposal will extend the range of

options. In addition, the Bank of England's management of the new issues queue will continue to give companies flexibility in coming to the markets of the kind the recent introduction of shelf registration has provided in the United States.

30. I also propose certain reliefs to enable companies to issue Eurobonds in this country and to ensure that full tax relief is available for discounts paid on acceptance credits.

31. We will be issuing on 21 March a consultative document on the possibilities for streamlining stamp duty.

32. The Loan Guarantee Scheme is another important innovation. My Hon Friend the Parliamentary Under-Secretary of State for Industry has conducted a thorough review of the scheme with the help of outside consultants. He will be making a full statement tomorrow. It is clear that the scheme has usefully encouraged lending to the small firms sector. Nearly £300 million has been lent to some 9,000 companies, about half of them new businesses. As a result, the scheme is now close to its present ceiling of £300 million. This ceiling will therefore be raised to £600 million to enable the scheme to run its full three year course to May 1984, and we may need to seek the House's approval for an increase in the statutory limit for this purpose.

33. On 3 March I informed the House about the publication of the report of the working party on freeports, under the Chairmanship of my hon friend, the Economic Secretary to the Treasury. I can now tell the House that the Government accepts the report and will implement its recommendations. Legislation will therefore be introduced in the Finance Bill to enable selected freeport sites to be designated.

34. Freeports are a new trading concept for the United Kingdom and I regard it as essential to make a careful test of the facilities they offer. As the report recommended, therefore, the first step is to establish freeports on an experimental basis in two or three locations. Widspread consultation will be needed before the sites are chosen.

35. Last, but far from least, the Business Start-up Scheme. This scheme, announced in my 1981 Budget Statement, offers uniquely generous tax incentives to outside investors in small companies. It is not bettered anywhere in the world. But I now intend to better it.

36. When I introduced the scheme I thought it right to give priority to investment in business start-ups, where there is often greatest difficulty in raising outside equity finance.

37. I now propose a major extension of the scheme. It was due to end in April 1984. The life of the new, extended scheme will run to April 1987. From 6 April the coverage will be greatly widened, to include not only new companies, but all qualifying established unquoted trading companies as well. I propose also to double the allowable maximum investment in any year from £20,000 to £40,000. A number of other changes will be made to improve the scheme. In particular the 50 per cent limit on qualifying shares will be dropped. The cost of these changes is difficult to estimate, but could be £75 million in a full year.

38. These proposals will transform the position of unquoted trading companies seeking outside equity. It is a further move towards removing the bias in the tax system against the personal shareholder, and is another measure in this Budget that will encourage wider share ownership. By concentrating help on those companies which do not have ready access to outside capital the scheme will assist many more small and medium companies to realise their undoubted potential for growth. The new, extended scheme will be known as the Business Expansion Scheme.

39. Our constant concern as a government has been to improve the competitive environment for businesses and people who work in them. These proposals mark a further major step in that direction.

BLOCK Q: PEOPLE AND BUSINESSES

1. In judging the right balance to strike in this Budget I have taken into account the measures I announced in the Autumn which will directly reduce business costs. I have also taken into account the lower level of the exchange rate. As I said in my Budget Speech two years ago, exchange rate changes alter the distribution of incomes between companies and persons. A higher exchange rate boosts personal spending power, but it squeezes the profits of companies exposed to international competition. Consequently, in my 1981 Budget, personal income tax thesholds remained unchanged in order in part to be able to offer some help to companies.

2. The same considerations led me to direct over two thirds of the real tax reductions in my 1982 Budget towards business and industry, in order to help cash flow and rebuild profits. In this Budget too the measures I have announced so far go largely in the same direction. Taken together with the changes that I announced last autumn, they will provide help for business and industry that is worth more than £1½ billion in a full year.

3. And that is only half the story. For, if business have to pay the same share of total taxes in 1983-84 as it paid

in 1978-79, then it would be paying some £3 billion more than is forecast for the coming year. But over the years I have acted deliberately to lighten that load. And I have done so in recognition of the case for helping business which has been strongly, and rightly, argued in debate after debate and from all quarters of this House. I don't believe any hon member would suggest business and industry can pay more tax.

4. But I have had to recoup that £3 billion. I have had to do this against the need both to hold down borrowing - not least to reduce business costs, and to finance public expenditure. Although spending is now being restrained, and will fall slowly, it is worth noting against that there are few hon members who have not urged increases, rather than cuts, upon the Government.

5. And this is the reason why the burden of tax on people, under successive governments, has become so intolerably high. The House must face this reality: spending at current levels, which many regard as too low, together with current levels of tax on business, which many regard as too high, have brought successive governments to a position where there has been no alternative to high levels of tax on people.

6. Yet reductions in personal taxation themselves help businesses and employment. Indeed, it is those who work in business who mainly determine business success.

7. For years in Britain the tax system and the tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at every level. Not least because when the State takes less of what people earn, there is less justification for excessive pay demands and settlements. And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs. And of course cuts in personal tax provide a vital stimulus for lasting growth and jobs.

8. Happily, because of our success in controlling public spending, the choice is less stark now than in the past. I am able to combine the significant measures of direct tax relief to industry and enterprise which I have just announced with a substantial measure of direct tax relief to people.

9. Acknowledged unfairnesses and absurdities produced by the overlap between tax and social security systems give further compelling reasons to move in that direction. It makes no sense that people on low incomes should be paying such large amounts of tax. And low tax thresholds are of course an important part of the so-called poverty and unemployment trap. These traps mean that some of those out of work who could find a job, and some of those in work who could find a better one, do not do so because they would end up no better off, with all or more of their

increase in income taken in tax and national insurance contributions, or lost in benefits foregone.

10. This is a situation that demands reform. But those who claim to have found a quick, cheap way to dispose of the poverty and unemployment traps deceive themselves. The problem has grown up almost entirely because Governments for thirty years or more have increased benefits in line with earnings, but raised personal tax thresholds only in line with prices which have grown much slowly over the years. [In 1950 a married man with two children did not start paying tax on less than average earnings. Today he reaches that point on little more than a third of average earnings. And the switch to child benefit accounts for only half of the change.] [In 1950 the tax threshold for a married man was about two thirds of average earnings. Today it is barely more than one third.] At the same time, to limit the rising burden of the social security budget, means-testing has been applied to a wide range of benefits.

11. A situation that has built up over thirty years cannot be put right in one Budget or one Parliament. These problems have arisen, moreover, not because Government spends too little, but because successive Governments have spent and taxed too much. The substantial increase which I have proposed in Child Benefit will improve work incentives for the low paid. And several of the measures we have taken since 1979

have reduced the unemployment trap. But it is only by limiting public spending and so making scope for higher personal tax thresholds that we can make a start on tackling the problem at its roots, as I now propose.

BLOCK R: PERSONAL TAX

1. In 1979 I reduced the basic rate of income tax from 33 per cent to 30 per cent, and cut the top rates. That was one of the first, and most radical, of the many changes that found a place in my first four Budgets. This year we can cut personal taxation again. But I do not propose any further reductions in rates. For the reasons I have just given it is thresholds and allowances that must take priority.

2. Two years ago, in order to curb inflation and allow lower interest rates, income tax allowances were not raised at all. That was a difficult decision, but necessary in the circumstances. And it has since brought great benefits. It was the firmness of that 1981 Budget, which paved the way towards the lower inflation and lower interest rates, which today offer the prospect of lasting economic recovery.

3. It is right that the benefit of the sacrifices of 1981 should be enjoyed now by those who made them then.

4. Last year I increased tax thresholds and bands by 14 per cent. That was 2 per cent more than the amount necessary to compensate for inflation. This year I also propose a similar increase - not 2 per cent over inflation,

but 14 per cent in all. And because inflation is so much lower that now represents a real increase of not 2 per cent, but 8½ per cent.

5. My proposal means that income tax thresholds should be increased for the single person from £1565 to £1785 and, for the married person from £2445 to £2795. The additional personal allowance paid to single parents, and the widows' bereavement allowance, will be increased in consequence from £880 to £1010. Corresponding increases will be made in the age allowance, the higher rate thresholds and bands and the threshold for the investment income surcharge.

6. Effect will be given to these changes under PAYE as from the first pay day after 10 May. For a married man on the basic rate they will be worth £2 a week. The cost to the PSBR, above indexation, will be over £1 billion which is accommodated within plans for a PSBR of £8 billion next year. Including indexation, the total revenue foregone will amount to some £2 billion in 1983-84 and £2½ billion in a full year. Some 1¼ million fewer people will pay tax in 1983-84 than if thresholds had remained at their present levels.

7. This is entirely right, and will be widely welcomed.

BLOCK S: CONCLUSION

1. At the start of my speech I referred to the objectives this Government adopted in 1979, to which we have held, and still hold. Lack of continuity and consistency of policy has contributed substantially to Britain's post-war history of economic difficulty and rising unemployment. That continuity and consistency has now been provided.

2. It has created, and will continue to create, the foundation for sustainable recovery.

3. Sound policies are fully consistent with real reductions in taxation, as last year's Budget, and today's demonstrates. Indeed such reductions flow precisely from such policies; without such policies they would not be possible, or sustainable.

4. Provided the country continues to recognise the need for sound policies - provided it continues to resist irresponsible prescriptions and proferred panaceas, national economic recovery and the reduction of unemployment are now attainable. This Budget is a further step in that direction. I commend it to the House.