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Mr Lewis

BUDGET ISSUES AND THE MEDIUM TERM PROSPECT

You are receiving under separate cover papers on the main issues that will need to be addressed in the run up to the Budget (papers attached to a covering minute by Mr Unwin dated 16 December) and on the medium term prospect (paper attached to a note by Mr Burns).

2. I think it would be helpful at your meeting this Friday 19 December to go over both sets of issues in a preliminary way. I hesitate to add to the papers with this note of my own but I would like to offer a couple of thoughts on how we should approach the issues at your meeting.

Budget Issues

3. The main focus on Friday should I suggest be the papers on

Budget issues. As these explain, it would be premature to go for firm conclusions - least of all of a quantitative kind - in advance of the firmer view of the economic outlook which we hope to form once we have the economic forecast in January. It would nevertheless be useful to look in particular at the principles that should guide us in revising the MTFS monetary growth profile and, within that, fixing the monetary target for 1981-82.

4. The issues on the size of the 1981-82 PSBR and the composition of fiscal action aimed at securing that outcome are essentially subordinate to the monetary question. A range of figures is given for the desired PSBR if monetary growth is to proceed at 6 to 10% from an April base allowing full base drift. But I must stress that these figures, based on the November "Industry Act" forecast, should not be taken as much more than illustrative at this stage. As for the shape of fiscal action it is certainly right to start thinking about the objectives to have in mind in easing the squeeze on companies, particularly given the various opportunity costs of measures necessary on the personal tax side to make room for such easement.

Medium term outlook

5. We have put this paper to you now largely as an early warning of the problems that will need to be tackled in revising the MTFS and its supporting fiscal projections, which we shall be expected to publish at Budget time. No decisions are required at this stage and I suggest we take the paper as the second item on Friday.

6. Again the figuring in this paper (which is based on the Industry Act forecast) should not be regarded as definitive. It will inevitably change as the projections are updated. But the broad picture is unlikely to change much and the present numbers exhibit the sort of problems we are likely to face in approaching the question of what medium-term material to publish with the Budget.



DOUGLAS WASS
17 December 1980