

MOST CONFIDENTIAL RECORD
TO
CC(83) 33rd Conclusions
Thursday 10 November 1983

ECONOMIC
SITUATION
AND
PROSPECTS

THE CHANCELLOR OF THE EXCHEQUER said that he would be making his Autumn Statement on Thursday 17 November. This would include the outline public expenditure programmes for 1984-85, reflecting the decisions taken by the Cabinet in their earlier discussion. It would also deal with National Insurance contributions (NICs) and the economic forecasts required by the provisions of the Industry Act. He had agreed with the Secretary of State for Social Services that there would be no change in the rate of either employers' or employees' NICs in 1984-85. The lower earnings limit, below which NICs were not charged, would be increased in line with the State Retirement Pension to £34 a week; the upper earnings limit, income above which was not subject to NICs, would be increased in line with earnings to £250 a week. The Exchequer supplement would be reduced from 13 per cent to 11 per cent. As a result of these changes, the surplus in the National Insurance Fund would be reduced; but it would still be well above the level which the Government Actuary had advised was necessary. The budgetary prospect which would be revealed in the Industry Act forecasts was not comfortable. The public sector borrowing requirement in 1983-84 was above the forecast made at the time of the Budget. This would increase the burden on debt interest in 1984-85. It also seemed that there would be little shortfall in that year in cash-limited expenditure programmes. Forecasts of revenue from North Sea oil were higher than before; and there was little change in the forecast yield of other Inland Revenue taxes; but because of lower inflation the forecast yield of Customs and Excise duties was lower. The net effect was that a small negative fiscal adjustment (that is, an increase in the real burden of taxation) would probably be required instead of the small positive adjustment forecast at the 1983 Budget. Such forecasts were, however, necessarily uncertain, since they depended on the difference between very large flows of revenue and expenditure. At the present stage the fiscal adjustment was an assessment of the prospect based on existing policies and assumptions and on the best available figures; it was not a budget judgment.

Inflation was forecast to be under 5 per cent by the end of 1984. The economy was expected to grow by up to 3 per cent in both 1983-84 and 1984-85. Much of this growth in 1983-84 was due to higher consumption. But in 1984-85 a higher proportion would come from growth in investment and exports, as our main export markets, such as West Germany, recovered: growth in exports was also being forecast by the Confederation of British Industry. The balance of payments was expected to be neutral.

The Cabinet -

Took note.