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FM WASHINGTON 281848Z AUG 80
TO PRIORITY FCO
TEL NO 3869 OF 28 AUGUST 1980.
AND TO ROUTINE TOKYO, OTTAWA, EC POSTS.

NM

Prime Minister

*You may like to glance
at the details of
Mrs. Carter's package*

ECONOMIC PACKAGE. MY TELEGRAM 3847 (NOT TO ALL)

AT BRIEFING ATTENDED BY MINISTER (ECONOMIC) THIS MORNING, DETAILS OF THE ECONOMIC PACKAGE WERE GIVEN BY SCHULTZE (CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS) AND OTHER CEA REPRESENTATIVES. WHITE HOUSE FACT SHEET FOLLOWS IN TOMORROW'S BAG FOR TURNBULL (TREASURY).

*MFD
29/8*

2. MAIN MEASURES ARE AS FOLLOWS:-

(A) MEASURES ORIENTED TOWARDS INVESTMENT

- (1) TAX DEPRECIATION ARRANGEMENTS TO BE LIBERALISED AND SIMPLIFIED.
- (2) PART (30%) OF THE 10% INVESTMENT TAX CREDIT TO BE GIVEN IN CASH TO FIRMS WITH NO TAXABLE EARNINGS.
- (3) A NUMBER OF MISCELLANEOUS EXPENDITURE MEASURES, INCLUDING EXPANDED FEDERAL SUPPORT FOR SCIENTIFIC RESEARCH AND TECHNOLOGICAL DEVELOPMENT, INCREASED PUBLIC SECTOR INVESTMENT IN TRANSPORTATION, AND ENERGY CONSERVATION.

(B) REDUCING TAX BURDENS

- (1) A TAX CREDIT TO OFFSET THE JANUARY 1981 RISE IN EMPLOYERS AND EMPLOYEES SHARE OF SOCIAL SECURITY TAX.
- (2) INCREASE IN THE EARNED INCOME TAX CREDIT (WHICH IS REFUNDABLE TO NON-TAXPAYERS) TO OFFSET THE RISE IN SOCIAL SECURITY TAXES FOR THOSE FAMILIES WHO PAY SOCIAL SECURITY BUT EARN TOO LITTLE TO PAY INCOME TAX.
- (3) A SPECIAL TAX DEDUCTION TO OFFSET THE QUOTE MARRIAGE PENALTY UNQUOTE ON MARRIED COUPLES BOTH OF WHOM EARN

(C) OTHER MEASURES

- (1) AN EXTRA 10% INVESTMENT TAX CREDIT FOR INVESTMENT IN AREAS SUFFERING A DECLINING INDUSTRIAL BASE AND HIGH UNEMPLOYMENT. THIS WILL BE DISCRETIONARY; CERTIFICATES OF NECESSITY WILL BE ISSUED BY THE DEPARTMENT OF COMMERCE FOR UP TO DOLLARS 10 BILLION OF QUALIFYING INVESTMENTS.
- (2) EXTENSION FROM 39 WEEKS TO 52 WEEKS OF UNEMPLOYMENT BENEFITS PAID TO WORKERS IN HIGH UNEMPLOYMENT STATES.
- (3) EXPANSION OF PROGRAMMES TO IMPROVE WORKER MOBILITY, INCLUDING JOB TRAINING AND RETRAINING.
- (4) A NEW ECONOMIC REVITALISATION BOARD WILL ADVISE THE PRESIDENT ON THE ESTABLISHMENT OF AN INDUSTRIAL DEVELOPMENT AUTHORITY TO CREATE JOBS IN AREAS OF HIGH UNEMPLOYMENT.

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/s. SCHULTZE

3. SCHULTZE AND OTHER CEA REPRESENTATIVES STRESSED THE FOLLOWING POINTS:

- (1) THE PROPOSALS WERE REGARDED AS RELATIVELY CAUTIOUS, OFFSETTING ONLY PART OF THE ADDITIONAL TAX REVENUE ACCRUING IN 1981 FROM THE INCREASE IN SOCIAL SECURITY TAX, WINDFALL PROFITS TAX, AND THE EFFECT OF INFLATION PUSHING PEOPLE INTO HIGHER TAX BRACKETS. THEY HAD ALSO BEEN CONCERNED TO AVOID BUILDING UP EXCESSIVE DEFICITS IN LATER YEARS.
- (2) THE PACKAGE HAD BEEN ORIENTED AS FAR AS POSSIBLE TOWARDS STIMULATING INVESTMENT, AND IMPROVING PRODUCTIVITY. BUT THERE WAS ALSO SOME NEED TO OFFSET PART OF THE PROSPECTIVE RISE IN THE PERSONAL TAX BURDEN.
- (3) THE ADMINISTRATION HAD NO ILLUSION THAT THE PACKAGE WOULD HAVE A MARKED IMMEDIATE IMPACT ON INFLATION, WHICH AFTER THE RECENT ABERRANT IMPROVEMENT WAS LIKELY SOON TO CLIMB BACK UP TO THE UNDERLYING RATE OF 9-10 PER CENT. THEIR AIM HAD BEEN TO SPEED AN OTHERWISE SLUGGISH ECONOMY IN 1981 WITHOUT ACTUALLY REKINDLING INFLATION, AND TACKLE THE INFLATION PROBLEM BY IMPROVING PRODUCTIVITY IN THE LONGER TERM.
- (4) MANY OF THESE PROPOSALS REQUIRED CONGRESSIONAL ENACTMENT. ADMINISTRATION HOPED THIS WOULD FOLLOW THE ELECTION. A TAX CUT ENACTED BEFORE THE ELECTION WOULD BE LIKELY TO END UP TOO LARGE AND WRONGLY ORIENTED.
- (5) THEY WERE ASSUMING THAT INTEREST RATES WOULD QUOTE DRIFT UPWARD UNQUOTE IN 1981, BUT NOT TO AN EXTENT WHICH WOULD IMPEDE THE RECOVERY.
- (6) THE TAX AND EXPENDITURE MEASURES TOGETHER WOULD COST ABOUT DOLLARS 30 BILLION IN CALENDAR 1981, BUT CONSIDERABLY LESS THAN THAT IN FISCAL 1981 BECAUSE THE MEASURES WOULD ONLY AFFECT PART OF THAT YEAR. THEY ESTIMATED THAT BY THE END OF 1982 THE MEASURES WOULD INCREASE INVESTMENT BY 10 PER CENT, AND DECREASE UNEMPLOYMENT RATE BY 0.8 PERCENTAGE POINTS, COMPARED WITH WHAT THESE WOULD OTHERWISE HAVE BEEN.

4. FURTHER COMMENT FOLLOWS.

FCO PLEASE ADVANCE SIR K COUZONS AND TURNBULL, TREASURY, AND GILCHRIST, BANK.

FRETWELL

FINANCIAL
NAD

[NOT ADVANCED]

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