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PART. A

CONFIDENTIAL

NATIONAL INSURANCE
CONTRIBUTIONS.

1981

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THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

8.1.81

Confidential

1

Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Bailey
Mr. Middleton
Mr. Battishill
Mr. Unwin
Mr. C.D. Butler
Mr. Kemp

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONAL INSURANCE SURCHARGE AND NATIONAL INSURANCE CONTRIBUTION - EMPLOYERS

I understand that Patrick Jenkin has spoken to you about the additional burden on employers caused through increased National Insurance Surcharge (NIS) and employers National Insurance Contribution (NIC) resulting from the increase in the upper earnings limit to £200 per week which I announced in the House this afternoon.

2. I find it hard to understand how this complaint can be linked in any way to the increase in the employees NIC rates (ENIC) that I announced this afternoon. The NIS (and the employers NIC) depends not only on the rate of NIS (or NIC) but the base on which it is charged. As the attached note by my officials shows, this is virtually defined by the present rules. There was a question of whether the upper limit should be £190 or £200, but we settled for £200 in the interests of helping with the PSBR.

3. We could have reduced the additional amounts payable only by either going for a smaller increase in the upper earnings limit than £200 per week, or by reducing the rate of surcharge itself. I would have opposed both. In connection with our PSBR problems we need the upper earnings limit as high as possible; and so far as employees' contributions are concerned, it makes the total move fairer to raise the limit as much as

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the rules allow. As for reducing the surcharge rate, this is in my view an inefficient and unselective way to help industry; if we have a given amount of money available there are better ways of spending it in this area. Only a third of the surcharge yield is payable by manufacturing industry.

4. The Secretary of State is especially concerned, I understand, about the employers statutory sick pay scheme and its inter-action with NIS/NIC. However this scheme does not come in until April 1982. We announced only last week substantial concessions to employers in this respect, and if we have to give more - I hope not - the time for this is later.

5. Employers are being substantially benefited by leaving their NIC rates untouched. As the note below points out no employer should be surprised at the increased amounts he has to pay by virtue of increasing the ceilings. I agree that the presentation may need careful handling, but I think we should leave the substance as it is.

6. I am copying this for the Secretary of State for Social Services.

(G.H.)

25 November 1980

Confidential

3

NATIONAL INSURANCE SURCHARGE AND EMPLOYEES NATIONAL INSURANCE CONTRIBUTION

Note by Treasury Officials

The National Insurance Surcharge (NIS) is collected through the same machinery as are National Insurance Contributions (NIC) For NIC, the system calls for contributions to be paid by employees and employers on incomes between the lower and upper earnings limits - currently £23 per week and £165 per week but to go up to £27 per week and £200 per week from 1 April. These limits in turn are tied to the level of the single person's pension, and it is part of the agreement with the private pension industry that the upper earnings limit will always be between 6½ and 7½ times the single person's pension.

2. Because the NIS is tied in with the NIC, as the upper earnings limit increases more NIS is payable. Thus in respect of an employee earning £190 pw at present the employer pays 3.5 per cent of £165 which is £5.77 pw, or when the limit goes to £200 pw he will pay 3.5 per cent of £190, which is £6.65 pw.

3. In total the effect of increasing the upper earnings limit to £200 pw is to increase the surcharge paid by employers by about £100 million per year. It could be said that this does no more than keep take from the surcharge constant, because the machinery in effect indexes the take to prices through the level of the single pension.

4. The only way in which this effect could have been avoided would have been to reduce the rate of NIS. Very roughly each one percentage point on NIS raises around £1 billion per annum, so a reduction from 3.5 per cent to 3.4 per cent would have been needed to offset the £100 million increase. A conscious decision was taken not to alter the rate of surcharge.

5. Employers should not be surprised at this increase. They should be aware of the way that NIS is tied in to NIC, and they should also be aware of the fact that the upper earnings limit is tied to the pension and has to increase annually. There was a discussion as to whether the limit should go to £190, £195 or £200 pw. £200 pw was agreed in the NIC context, first to maximise the PSBR benefit from this source, and secondly as making the move arguably slightly less regressive - the higher the upper earnings limit the less regressive it is.

6. Very much the same effect occurred last year when the upper earnings limit was raised from £135 pw to £165 pw. Employers then had to accept that the surcharge burden in total increased. They made no complaints against it.

HM TREASURY
24 November 1980

SSCS

Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Burns
Mr. Bailey
Mr. Battishill
Mr. Bridgeman
Mr. Unwin
Mr. Kemp
Mr. Dixon
Mr. C.D. Butler
Mr. Ridley
Mr. Cropper
Mr. Cardona

CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street,
01-233 3000
8 December

The Rt. Hon. Patrick Jenkin, MP.,
Secretary of State for Social Services

Dear Secretary of State,

NATIONAL INSURANCE (CONTRIBUTIONS) BILL

Thank you for your letter of 3 December. We discussed the matter briefly at Cabinet on Thursday, when you reported that you thought that following your discussion with backbenchers there is now little risk of any amendment being put down from our side to the Bill.

This means, I hope, that we need not think in terms of any concessions. <u>If</u> - I repeat if - it nevertheless becomes necessary to do something in order to avoid defeat, I am inclined to agree with you that the least unattractive course would be to reduce the Uppoer Earnings Limit to £190 per week. This would have the merit of helping employees as well as employers, in a situation where, notwithstanding all the noise, employers are already decidedly favoured. However as I have already made clear I should be strongly against making this, or indeed any other, concession on the Bill, and I should want a great deal of persuading that one was necessary. We will keep the position of employers under review, and if we have to do anything this should be carefully designed and left until Budget time, and decided in the light of all the circumstances then. I hope we can all agree to adopt this approach.

I am copying this letter to the Prime Minister, the other members of E Committee and Sir Robert Armstrong.

Yours sincerely,

Richard Tolkien (Private Secretary),

for,

GEOFFREY HOWE

CONFIDENTIAL

6

10 DOWNING STREET

From the Private Secretary

CH/EXCHEQUER

REC.

Mr C.D. Butler

CST

FST

Sir D. Wass

Sir A. Rawlinson

Mr Ryrie

Mr Bailey

Mr Middleton

Mr Battishill

Mr Unwin

Mr Kemp

25 November 1980

Dear John,

The Prime Minister held a meeting this morning with the Chancellor and the Secretary of State for Social Services to discuss the effect of the National Insurance Surcharge and National Insurance Contribution on employers. They had before them the Chancellor's and Mr. Jenkin's minutes of 25 and 24 November respectively.

Mr. Jenkin explained that, as a result of raising the upper earnings limit from £165 to £200, the cost to employers would be £386 million - of which £104 million would be due to the NIS. He was concerned that Cabinet had not been aware that this would be happening, and also that the extra burden on industry would not appear consistent with the general purpose of the Chancellor's measures - which was to shift resources from the personal and public sectors to the company sector. Moreover, he was concerned that it would look as if the concession to employers which he had announced last Friday on the Employers Statutory Sick Pay Scheme would now appear to be being taken away.

The Chancellor said that employers would have had to pay additional amounts in the absence of the increase in the employees National Insurance Contribution rates. This followed simply from the fact that the upper earnings limit was being raised, as it was every year more or less in line with inflation; and employers expected the increase. The only possible issue was whether the ceiling should have been raised to £190 or £200; but it had been decided to go for the upper figure on revenue grounds and in order to make the increase in employee rates less regressive. The only way to have exempted employers from the increased burden would have been to have reduced the surcharge rate; but he had taken the view that this would have been an inefficient and unselective way of helping industry - particularly since only a third of the surcharge yield was payable by manufacturing industry. Industry would be helped by the stock relief measure announced last week, and also by the reduction in interest rates. He would of course continue to consider the general burden on industry caused by the recession and other factors in preparation for the next budget; but he was strongly opposed to making any concession on the employer surcharge now.

/ The Prime Minister

CONFIDENTIAL

The Prime Minister said that she shared Mr. Jenkin's concern that the Government appeared to be adding to industry's burden at a time when it was trying to provide some relief. She would have preferred the issue to have been considered explicitly by Cabinet: the possibility of increasing the ceiling to £190, or exempting the employers from having to pay anything extra on the surcharge might have been considered. But it was now too late to make a change. However if an amendment were to be put down to the Social Security Bill proposing that employers be given some exemption, the issue would need to be reconsidered in E Committee. In the meantime, the Treasury and DHSS would need to agree a line on what should be said against criticism that industry's costs were being increased, and that there was a contradiction between this and Mr. Jenkin's concession on ESSPS.

I am sending a copy of this letter to the Private Secretaries to the members of the Cabinet and to David Wright (Cabinet Office).

Tim Lankester

John Wiggins, Esq.,
H.M. Treasury.

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MR KEMP

cc Mr Battishill
Mr Unwin
Mr C D Butler
Mr Ridley
Mr Cropper

ENIC

I have tried ~~by~~ my hand at an ultra-simple presentation of our case, for circulation to backbenchers through Central Office. I should be very grateful if you and copy recipients could let Mr Ridley and myself have comments by the early afternoon, when he and I will be putting the note into final form.

GEORGE CARDONA
26 November 1980

CHANGES IN NATIONAL INSURANCE CONTRIBUTIONS

The facts

- NI contributions (for both employers and employees) are calcula as a proportion of earnings between an upper and a lower earnin limit.

- The Government has changed the proportion of earnings paid by employees (for 1981-82), but there has been no change in the proportion paid by employers.

- The Government has also changed the upper and lower earnings limits (again for 1981-82). They move in line with inflation, are going up from £23 and £165 per week to £27 and £200. It is because of this increase in the limits that the contributions paid by employers will rise.

- There is one further ~~complications~~ complication: the upper earnings limit wo have been taken from £165 to £190 by inflation. It was decided to round this figure up to £200. The small margin of £10 accou for a small increase in employers' costs over and above inflati

The arguments

- There is no question of the Chancellor having misled the House of Commons. What he said on Monday 24 November was:

  "These changes will increase the employers' rate of NI contribution from 1 April 1981, on earnings between £27 per week and £200 per week, from $6\frac{3}{4}$% to $7\frac{3}{4}$%. Other rates and levels, including those for the self-employed, will also chang Having regard however to the financial pressures on industry and the way in which the employer's share has grown in recent years, employers' contribution rates - including the surcharg will remain unchanged."

- It is perfectly clear from the Chancellor's statement that there was to be no change in employers' contribution rates, and that the earnings limits were being moved, as is the regular practice every year.

/....

- Industry's NI contributions are being increased to take account of inflation (plus the rounding-up to £200 of the upper earnings limit). But this revalorisation will take effect only from 1 April 1981. Industry's financial position will in any case be considered more fully in preparations for the 1981 Budget.

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State C
Minister of State L
Sir D Wass
Sir A Rawlinson
Mr Ryrie
Mr Bailey
Mr Middleton
Mr Battishill
Mr Unwin
Mr Kemp
SSCS

25.11.80

IMPACT OF NATIONAL INSURANCE CHANGES ON EMPLOYERS

Following your discussion this morning with the Prime Minister and the Secretary of State for Social Services you asked me to revise the note you gave her about this, bringing out two further points:

(a) That the increase in employers contributions and NIS attributable to the £200 upper earnings limit, is part of the annual review process and there is no difference in what we have done this year from last year's;

(b) emphasising that the amount of extra NIS attributable to raising the limit to £200 is actually only about £25 million because the limit would otherwise have been £190; and that only about one-third of the surcharge yield is payable by manufacturing industry, the rest is paid by central and local government, public utilities and service industries such as banks and insurance companies.

2 I attach a draft. This assumes that you will also circulate the note by officials. Since our discussion you will have seen the record of the meeting circulated by No 10. After consulting your Private Secretary we agreed that it would be best to circulate your minute as if you had not seen the record of the discussion but were merely responding to Mr Jenkin's minute of yesterday. It will therefore have to be circulated today.

3 On the history, I attach (top copy only) copies of the correspondence last year, from which you will see the discussion was in

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very similar terms to this year's (between £160 and £165 UEL). And that the Prime Minister specifically endorsed the higher limit.

4 On the burden of the NIS take, only about a third comes from manufacturing industry. Of the rest, a fifth is accounted for by central and local government, another fifth by the service industries and the remainder comes from a whole range of non-manufacturing activities including public utilities, banks, insurance and oil companies.

CDB

C D BUTLER
25 November 1980

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DRAFT

PRIME MINISTER

IMPACT OF NATIONAL INSURANCE CHANGES ON EMPLOYERS

I have seen the Secretary of State for Social Services' minute to you of 24 November about the additional burden on employers through increased National Insurance contributions (NIC) and increased Surcharge (NIS) resulting from the increase in the upper earnings limit to £200 per week which I announced in the House yesterday.

2 These effects are entirely separate from the increase in the contribution rates for employees that I announced yesterday. Those increases have no effect on employers, as Cabinet intended. The increased payments by employers are attributable solely to the increase in the base - by raising the upper earnings limit to £200 per week - on which their contributions and NIS are charged. As the attached note by my officials shows, this is virtually defined by the present rules. There is a discussion each year about the exact level of the upper earnings limit. Last year we had a choice between £160 and £165, and settled - for PSBR reasons - on £165. This year there was a question of whether the upper limit should be £190 or £200, but we settled for £200 for exactly the same reason. It is only because we are using the legislation to change all rates and limits (including those that would otherwise be adjusted by Order) that the Financial Memorandum to the Bill gives the full effect on NIS of the increase in the limit.

3 We could only have reduced the additional amounts payable by either going for a smaller increase in the upper earnings limit than £200 per week, or by reducing the rate of surcharge itself. I would have opposed both. In connection with our PSBR problems we need the

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upper earnings limit as high as possible; and so far as employees contributions are concerned, it makes the total move fairer to raise the limit as much as the rules allow. Besides, the true additional burden on employers is the increase attributable to setting the limit at £200, when we could have chosen £190. The difference in take on the NIS is around £25 million. To reduce the rate of the surcharge to reflect this seems to me unnecessary. It is furthermore an inefficient and unselective way to help industry. If we have a given amount of money available there are better ways of spending it in this area. Only a third of the surcharge yield is payable by manufacturing industry; the bulk of the rest is paid by government, public utilities and various services ~~non-trading activities~~ (eg banking and insurance which are relatively little subject to the pressures of international competition.

4 The Secretary of State is especially concerned with the coincidence of this increased payment by employers with the introduction of the Bill to implement the employers statutory sick pay scheme. However the scheme does not come in until April 1982. We announced only last week substantial concessions to employers in this respect (not only by reducing their NI contribution by a further £100 million, but also concessions to small employers totalling about £40 million). If we have to give more - which I hope we shall not - the time for this is later.

5 Employers are being substantially benefited by leaving their NIC rates untouched. As the note below points out no employer should be surprised at the increased amounts he has to pay by virtue of increasing ceilings, which broadly maintain the real value of the tax, and to which employers should by now have become accustomed. I agree that the presentation may need careful handling, but I think we should leave the substance as it is.

6 I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

[1] (If we failed to revalorise the earnings range, the real yield of the tax would fall.) [3] By contrast the concession on the Employers' ~~Sick~~ Statutory Sick Pay scheme represents a deliberate action to reduce the burden on employers and is related to contributions payable from April 19

CONFIDENTIAL

PRIME MINISTER

National Insurance

This note sets out my oral report to you last evening on the problems with the Lobby over National Insurance.

At the first Lobby at 4 p.m. I was forced into a corner. Being inadequately briefed, I left doubts whether the Prime Minister knew about the effect on employers of the uprating and I was unclear, on the basis of correspondence I had seen, whether the Chancellor or Mr. Jenkin knew about it before the Chancellor's statement on Monday.

I was also in considerable difficulty because some members of the Lobby saw Mr. Jenkin in No. 10 at 11 a.m. on Tuesday.

I called another Lobby at 6 p.m. and made the following points:

i. The Prime Minister was aware of the effect on employers in broad terms - I could not vouch precisely for £386 million.

ii. She discussed with the Chancellor and Mr. Jenkin the GAD report on Tuesday morning but I was also sure that the additional call on employers was also mentioned.

iii. This additional call was a potential issue because it was touched upon by Mr. Campbell-Savours in the House on Monday towards the end of the Chancellor's statement and the Chancellor did not give a full answer.

iv. I pointed out, however, that Mr. Jenkin was answering a Question on Tuesday afternoon which, as usual and according to practice followed by Mr. Healey, made clear employer contributions would also rise. Moreover,

/a

a DHSS press notice spelled out in detail what additionally employers would have to pay.

v. I fully accepted that this did not resolve the desirability of whether or not the Chancellor should have spelled out the amount by which uprating would put an additional impost on employers.

vi. But I did make clear that my impression was that employers were well aware that there would be an additional impost because of the usual raising of bands required by Statute and were able broadly to build it into their forecast of costs.

Under questioning

- I did not lead the Lobby to suppose that the Cabinet had considered the additional amount to be raised from employers.

- I said that in normal circumstances the settlement of the 6.5-7.5x pension would be between the Chancellor and the Secretary of State, DHSS, keeping the Prime Minister informed.

- The Lobby noted that £200 is at the top of the range - to which I said that there was clearly a need for revenue.

- I resisted all efforts to determine the precise nature of Tuesday morning's discussion between the Prime Minister, Chancellor and Mr. Jenkin or specifically whether presentation of the additional impost on employers was considered.

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- I indicated that the Prime Minister had seen the Chancellor's Monday statement in advance, even though she had been in Rome. But I made the point that No. 10 was not seeking to make excuses on that account. I did not know whether the effect on employers had, subsequently to Tuesday, been discussed with the Chancellor. I knew of no plans for a review of the position.

B. INGHAM

27 November, 1980

Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Bailey
Mr. Middleton
Mr. Battishill
Mr. Unwin
Mr. Kemp
Mr. C.D. Butler

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CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

25.11.80

PRIME MINISTER

IMPACT OF NATIONAL INSURANCE CHANGES ON EMPLOYERS

I have seen the Secretary of State for Social Services' minute to you of 24 November about the additional burden on employers through increased National Insurance contributions (NIC) and increased Surcharge (NIS) resulting from the increase in the upper earnings limit to £200 per week which I announced in the House yesterday.

2. These effects are entirely separate from the increase in the contribution rates for employees that I announced yesterday. Those increases have no effect on employers, as Cabinet intended. The increased payments by employers are attributable solely to the increase in the base - by raising the upper earnings limit to £200 per week - on which their contributions and NIS are charged. As the attached note by my officials shows, this is virtually defined by the present rules. There is a discussion each year about the exact level of the upper earnings limit. Last year we had a choice between £160 and £165, and settled - for PSBR reasons - on £165. This year there was a question of whether the upper limit should be £190 or £200, but we settled for £200 for exactly the same reason. It is only because we are using the legislation to change all rates and limits (including those that would otherwise be adjusted by Order) that the Financial Memorandum to the Bill gives the full effect on NIS of the increase in the limit.

3. We could only have reduced the additional amounts payable by either going for a smaller increase in the upper earnings limit than £200 per week, or by reducing the rate of surcharge itself.

CONFIDENTIAL

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I would have opposed both. In connection with our PSBR problems we need the upper earnings limit as high as possible; and so far as employees' contributions are concerned, it makes the total move fairer to raise the limit as much as the rules allow. Besides, the true additional burden on employers is the increase attributable to setting the limit at £200, when we could have chosen £190. The difference in take on the NIS is around £25 million. To reduce the rate of the surcharge to reflect this seems to me unnecessary. It is furthermore an inefficient and unselective way to help industry. If we have a given amount of money available there are better ways of spending it in this area. Only a third of the surcharge yield is payable by manufacturing industry; the bulk of the rest is paid by government, public utilities and various services (e.g. banking and insurance) which are relatively little subject to the pressures of international competition.

4. The Secretary of State is especially concerned with the coincidence of this increased payment by employers with the introduction of the Bill to implement the employers statutory sick pay scheme. However the scheme does not come in until April 1982. We announced only last week substantial concessions to employers in this respect (not only by reducing their NI contribution by a further £100 million, but also concessions to small employers totalling about £40 million). If we have to give more - which I hope we shall not - the time for this is later.

5. Employers are being substantially benefited by leaving their NIC rates untouched. As the note below points out no employer should be surprised at the increased amounts he has to pay by virtue of increasing ceilings, which broadly maintain the real value of the tax, and to which employers should by now have become accustomed. (If we failed to revalorise the earnings range, the real yield of the tax would fall.) By contrast, the concession on the Employers' statutory sick pay scheme represents a deliberate

20

action to reduce the burden on employers and is related to contributions payable from April 1982. I agree that the presentation may need careful handling, but I think we should leave the substance as it is.

6. I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

(G.H.)

25 November 1980

Confidential

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NATIONAL INSURANCE SURCHARGE AND EMPLOYEES NATIONAL INSURANCE CONTRIBUTION

Note by Treasury Officials

The National Insurance Surcharge (NIS) is collected through the same machinery as are National Insurance Contributions (NIC For NIC, the system calls for contributions to be paid by employees and employers on incomes between the lower and upper earnings limits - currently £23 per week and £165 per week but to go up to £27 per week and £200 per week from 1 April. These limits in turn are tied to the level of the single person's pension, and it is part of the agreement with the private pension industry that the upper earnings limit will always be between 6½ and 7½ times the single person's pension.

2. Because the NIS is tied in with the NIC, as the upper earnings limit increases more NIS is payable. Thus in respect of an employee earning £190 pw at present the employer pays 3.5 per cent of £165 which is £5.77 pw, or when the limit goes to £200 pw he will pay 3.5 per cent of £190, which is £6.65 pw.

3. In total the effect of increasing the upper earnings limit to £200 pw is to increase the surcharge paid by employers by about £100 million per year. It could be said that this does no more than keep take from the surcharge constant, because the machinery in effect indexes the take to prices through the level of the single pension.

4. The only way in which this effect could have been avoided would have been to reduce the rate of NIS. Very roughly each one percentage point on NIS raises around £1 billion per annum, so a reduction from 3.5 per cent to 3.4 per cent would have been needed to offset the £100 million increase. A conscious decision was taken not to alter the rate of surcharge.

5. Employers should not be surprised at this increase. They should be aware of the way that NIS is tied in to NIC, and they should also be aware of the fact that the upper earnings limit is tied to the pension and has to increase annually. There was a discussion as to whether the limit should go to £190, £195 or £200 pw. £200 pw was agreed in the NIC context, first to maximise the PSBR benefit from this source, and secondly as making the move arguably slightly less regressive - the higher the upper earnings limit the less regressive it is.

6. Very much the same effect occurred last year when the upper earnings limit was raised from £135 pw to £165 pw. Employers then had to accept that the surcharge burden in total increased. They made no complaints against it.

HM TREASURY
24 November 1980

Tuesday 25 November 1980
Written Answer

PQ 80/1980/81
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NATIONAL INSURANCE CONTRIBUTIONS - CHANGES

76 Mr Chris Patten (C. Bath)

To ask the Secretary of State for Social Services, what change in national insurance contributions he proposes for 1981-82.

MR PATRICK JENKIN

As my right hon and learned Friend the Chancellor of the Exchequer announced yesterday, the Government propose:-

1. To reduce the rate of Treasury Supplement from 18% to 14.5%. This will achieve savings in the Consolidated Fund of £529 million in the year 1981-82.

2. To increase the National Health Service allocation from contributions, to provide additional revenue of £254 million in the year 1981-82.

3. To increase contributions both to take account of these changes and to cover increased demands on the National Insurance Fund.

I have today presented a Bill which provides for these changes. It also provides for the annual changes needed to take account of inflation. A report by the Government Actuary (Cmnd 8091) which accompanies the Bill sets out the effect of all these changes on the National Insurance Fund.

Continued →

CHANGES IN CONTRIBUTION RATES

Employees and Employers

The Class 1 employee contribution rate (not contracted out) is increased from 6.75% to 7.75%. 0.5% of this increase is on account of the reduction in the Treasury Supplement, 0.25% for the NHS, and 0.25% to avoid a deficit in the National Insurance Fund. The same increases are being made in the employee contracted-out rate. The reduced contribution payable by opted-out married women and widows is increased from 2% to 2.75%. There will be no increase in the contribution rate for employers, which will continue at 10%, (not contracted out) plus 0.2% for the Redundancy and Maternity Pay Funds and 3.5% national insurance surcharge.

These contributions are payable on all earnings up to an upper limit provided that the earnings reach a lower limit. In line with the requirements of the Social Security Pensions Act 1975, the lower earnings limit will be increased to £27 a week, just below the new basic retirement pension, and the upper earnings limit will be increased to £200 a week. The present limits are £23 and £165 a week respectively.

The self-employed

The flat-rate Class 2 contribution is raised from £2.50 a week to £3.40 a week; 45p of this increase reflects inflation, in particular the movement in earnings and benefit rates, 15p is for the NHS, and 30p is on account of the reduced Treasury Supplement. The annual limit of earnings below which a self-employed person may apply for exception from liability for Class 2 contributions is raised from £1,250 to £1,475.

Continued —>

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The weekly Class 2 contribution rate for share fishermen (who are eligible for unemployment benefit) is increased from £3.90 a week to £5.15 a week.

The rate of Class 4 contributions payable in respect of profits is increased from 5% to 5.75% (0.25% for the NHS, 0.5% on account of the reduced Treasury Supplement), and the limits of annual profits between which Class 4 contributions are paid are raised from £2,650 and £8,300 to £3,150 and £10,000.

Voluntary contributions

The rate of the Class 3 (voluntary) contributions is increased from £2.40 to £3.30 a week.

Effect of all the changes

The table below sets out all the changes, distinguishing those due to inflation and the extra increases now proposed. For those with earnings or profits between the lower and upper limits, Class 1 or Class 4 contributions rise automatically with earnings or profits. Inflation increases therefore affect only the flat-rate contributions and Class 1 and Class 4 contributions on earnings and profits above the old upper limits.

For someone earning £130 a week (about the average for men), and not contracted-out, the Class 1 contribution would rise by £1.30 a week. For the self-employed person with profits of this amount, the combined Class 2 and Class 4 contribution would rise by 94p a week. The maximum increase in the Class 1 contribution (for those earning £200 a week or more) would be £9.16 a week. £7.16 of this is due to the increase in the upper earnings limit (this increase is for the employer and employee jointly) and £2 is due to the increase in the rate. For the self employed the maximum increase would be £3.04p a week, £1.60 due to the higher profits limit and inflation element in the Class 2 increase and £1.44 due to the extra increase in rates.

[TABLE ATTACHED]

Continued →

1960/1980/81.

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CHANGES IN CONTRIBUTION RATES PROPOSED FOR 1981/82

	1980/81	Changes on account of inflation/	Increases on account of the National Insurance Fund, changes in NHS allocation and Treasury Supplement	1981/82
Class 1				
Lower earnings limit (LEL)	£23 a week	£4	-	£27 a week
Upper earnings limit (UEL)	£165 a week	£35	-	£200 a week
Employed earner's rate:				
Not contracted out	6.75 per cent	-	1 per cent	7.75 per cent
Contracted out	6.75 per cent to LEL		1 per cent	7.75 per cent to LEL
	4.25 per cent between LEL and UEL	-	1 per cent	5.25 per cent between LEL and UEL
Reduced rate	2 per cent	-	0.75 per cent	2.75 per cent
Employer's rate:*				
Not contracted out	13.7 per cent	-	-	No change
Contracted out	13.7 per cent to LEL	-	-	No change
	9.2 per cent between LEL and UEL	-	-	No change
Class 2 rate	£2.50 a week	45p	45p	£3.40 a week
Small earnings exception - where earnings below	£1250 a year	£225	-	£1475 a year
Class 4 rate	5 per cent	-	0.75 per cent	5.75 per cent
Lower limit of profits or gains	£2650 a year	£500	-	£3150 a year
Upper limit of profits or gains	£8300 a year	£1700	-	£10,000 a year
Class 3 rate	£2.40 a week	45p	45p	£3.30 a week

/ In particular, the movements in earnings and benefit rates.

* Inclusive of surcharge (3.5 per cent) payable under the National Insurance Surcharge Act 1976 as amended by the Finance Act 1978, and Redundancy and Maternity Pay Fund allocation (0.2 per cent).

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CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Battishill
Mr Unwin
Mrs Gilmore
Mr C D Butler

EMPLOYERS NATIONAL INSURANCE CONTRIBUTION

Against the possibility that there may be a PNQ down all that you may like to put out a direct statement today concerning last nights events, I have quickly prepared the attached. It is intended to be fairly robust, but I understand that from Mrs Gilmore that this what you are looking for.

2. I should be grateful if you would regard it as only a draft at this stage, because I would like to check over some of facts etc. with DHSS. I am in touch with them.

3. I also attach a brief note showing how the upper earnings limit and the employee and employers percentages have moved since 1976.

EPK

E P KEMP

26 November 1980

DRAFT STATEMENT FOR THE CHANCELLOR OF THE EXCHEQUER TO MAKE

EMPLOYERS NATIONAL INSURANCE CONTRIBUTIONS

I am astonished that the RHM for Leeds East is expressing surprise on discovering that when the limits for National Insurance Contributions are changed employers have to pay more. After all, it was his Party which laid the broad foundations to the present system, including the linking of the limits to the pension - and thus to inflation - and the sharing of the burden of contributions between employers and employees. Benefits - payable to the old, sick, the unemployed, etc. - go up and have to be paid for, as he well knows; and the upper limit goes up too. He raised it from £105 to £120 in November 1977 and again from £120 to £135 in 1978. We heard nothing about the additional burdens on employers, or come to that, employees, at that stage. And it was the RHM who invented the surcharge.

What the RHM apparently failed to spot, of course, is the extent to which we are relieving employers of what would be their normal share. The normal practice is that when rates - and I emphasise rates and not limits - go up employers and employees rates move together. Last year they moved by the same amount. (The RHM, in fact, in 1977 put employers rates up by <u>more</u> than the employees rates - 1¼% against ¾%.) Having regard to the state of industry, however, this time we have deliberately chosen not to put any of the increase income attributable to the increased rates on to employers. As I said, the increase in rates has raised £1bn ~~from~~ wholly from employees. The RHM will appreciate that this has relieved employers of around £400/£500 million per annum. This is the measure of the benefit we are giving them.

	UEL	% Employee	% Employer	
1.4.76	95	$5\frac{3}{4}$	$8\frac{3}{4}$	
1.4.77	105	$5\frac{3}{4}$	$8\frac{3}{4}$	(+ 2½ NIS)
1.4.78	120	$5\frac{1}{2}$	10	(+ NIS)
1.4.79	135	$6\frac{1}{2}$	10	(+ $3\frac{1}{2}$% NIS)
1.4.80	165	$6\frac{3}{4}$	$10\frac{1}{4}$	(do)
1.4.81	200	$7\frac{3}{4}$	$10\frac{1}{4}$	(do)

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Bailey
Mr Battishill
Mr Unwin
Mr C D Butler
Mrs Gilmore
Mr Salveson
Mr Ridley
Mr Cropper
Mr Cardona
PS/Secretary of State for Social Services
Mr Chislett (DHSS)

EMPLOYERS NATIONAL INSURANCE CONTRIBUTION

Here is a fact sheet, agreed with DHSS officials.

2. If you are content, I suggest it goes to the Pay Master General for circulation to back benchers if he thinks fit; and at the same time it goes to the Prime Minister, your other Ministerial colleagues, and Sir Robert Armstrong. This might be done under cover of a Private Secretary note, which might add that Treasury Officials would be glad to explain any detailed points that are raised (myself or Mr Butler are the contacts).

EPK

E P KEMP

26 November 1980

PS Mr Jenkin has had this note read over to him. He is content on the understanding that his position in relation to a possible reduction in the surcharge is reserved. This refers to Mr Lankester's letter of yesterday. I see nothing in the note or in the fact of its distribution, to affect the position set out in that letter.

EPK

EPK

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THE NATIONAL INSURANCE FUND AND NATIONAL INSURANCE CONTRIBUTIONS - FACTS

Contributory social security benefits - retirement pensions, unemployment benefit, sickness benefit, etc.- are paid out of the National Insurance Fund. They will total about £17 billion in 1981-82. The Fund's income comes from employers and employees by way of contributions (in total about £14 billion) with the balance from a Supplement by the general taxpayer and investment income.

2. Contributions are calculated as percentages payable by employers and employees on bands of employees income between what is known as the lower earnings limit and the upper earnings limit. Under existing legislation the lower earnings limit must be set at about the level of the single persons pension (£27.15 pw) and the upper earnings limit must be between 6½ and 7½ times that pension. The limits are currently £23 and £165 pw, but following this week's increase in the pension they will go up to £27 and £200 pw from 1 April next.

3. The size of the contributions payable by employers and employees depends on two separate factors :-

(a) the upper and lower earnings limits and
(b) the rates payable.

4. From 1 April next year both rates and levels change. Increases in the levels, which have to be made under the existing rules, will raise in total about £470 million through the National Insurance Contributions (and a further £100 million through the National Insurance Surcharge). Of this about £390 million falls to employers and the balance to employees. This is automatic and would have happened without any change in rates. Although the cash amount raised increases on this score, it is broadly maintained in real terms. In effect the system protects the real value of the amounts against inflation.

5. Decisions on rates are less automatic. The Government has decided to raise a further £1 billion from an increase in rates, for the reasons the Chancellor set out in his statement on 24 November :-

(a) to keep the Fund in balance having regard to the forecast demands in it;

(b) to maintain the level of health services;

(c) to reduce the support given by the general taxpayer through the Supplement.

6. Having regard to the state of industry the Government has decided that the whole of the £1 billion should be met by employees although normally employers would have met up to perhaps one half of it. This is part of the Government's policy to correct the imbalance between the personal and corporate sectors.

7. The Chancellor's statement on Monday was related to the major policy decision to increase employees rates and leave employers rates un-changed. The increased contributions from both employees and employers resulting from this increase in the limits were regarded as familiar consequence of the system, and so were not dealt with in a short statement. As the Chancellor made clear full details were to be published by the Secretary of State on the following day. This was done.

8. The attached tables set out :-

(a) the relevant figures;

(b) how the rate and limits hav

Total effects of increase in National Insurance limits and rates in 1981-82

	£ million		
	Employees	Employers	Total
Effect of raising earnings limits on contributions	186	282	468
Effect of raising earnings limits on NI Surcharge	nil	104	104
Effect of increases in rates	997*	nil	997
	1183	386	1569

*includes increased contributions from self-employed and voluntary contributions

Source: Appendix 1 of Government Actuary's Report on the Financial Provisions of the Social Security (Contributions) Bill 1980 (Cmnd 8091)

Recent Movements of Upper Earnings Limit and Rates*

	Upper Earnings Limit	% Employees Rate	% Employers Rate
1.4.76	95	$5\frac{3}{4}$	$8\frac{3}{4}$
1.4.77	105	$5\frac{3}{4}$	$8\frac{3}{4}$ (+ 2% NIS)
1.4.78	120	$6\frac{1}{2}$	10 (+ 2% NIS, $3\frac{1}{2}$ from 1.10.78)
1.4.79	135	$6\frac{1}{2}$	10 (+ $3\frac{1}{2}$% NIS)
1.4.80	165	$6\frac{3}{4}$	$10\frac{1}{4}$ (+ $3\frac{1}{2}$% NIS)
1.4.81	200	$7\frac{3}{4}$	$10\frac{1}{4}$ (+ $3\frac{1}{2}$% NIS)

*For "not contracted out" contributions

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MR JENKINS

PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir D Wass
Sir A Rawlinson
Mr Ryrie Mr Burns
Mr Bailey
Mr Middleton
Mr Kemp
Mr C D Butler
Mr Corlett
Mr Griffiths

Mr Gracey (IR)
Mr Howard (C&E)
Mr Ridley
Mr Cropper
Mr Cardona

25.11.80

ECONOMIC DEBATE: EMPLOYEES NATIONAL INSURANCE CONTRIBUTIONS

You reported that when they met yesterday Treasury Ministers asked for some defensive briefing against Opposition charges that the increase in employees national insurance contributions was regressive. They asked to see the arguments in relation to corresponding increases in income tax and in indirect taxes. I have since discussed this briefly with Mr Cardona.

2. I attach three notes:-

(i) the first, prepared with the Inland Revenue by Mr Corlett, compares the distributional effects of an extra £1 billion from a 1% increase in employees contributions with the same amount raised by -
(a) increasing the basic rate from 30 to 31¼% and
(b) cutting real tax allowances by £100 for single people and £150 for married;

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(ii) the second consists of a draft speaking note for use in dealing with Opposition criticism that the money should have been raised in higher taxes.

(iii) the third illustrates the effects of the National Insurance decisions on the Fund next year.

3. The arguments about the distributional effects of the contribution increase, compared with alternatives need to be handled with great care:-

(i) The employees national insurance contribution is charged at the same rate on income between the lower and upper earnings limits - £27 and £200 next year. For the great majority of working people whose incomes fall within those limits, it is simply a proportionate tax. Each additional £1 of earnings will attract, as a result of the Chancellor's announcement, an additional 1p in contribution next year.

(ii) Because of the ceiling, earnings above £200 attract no more contribution. The total contribution remains then fixed at £15.50 a week. The additional 1% (included in that figure) remains fixed at £2 a week. Because of this cut-off point, critics can (just about) describe the contribution system as a whole as regressive.

But, as noted above, for most people whose earnings do not exceed £200 a week, the system is, and looks proportionate. No more, and no less.

4. In responding to the Chancellor's statement, however, Mr Healey said:-

"The national insurance increases are equivalent to an increase of well over 1p in the standard (sic) rate of income tax but they are highly regressive by comparison with an increase in the standard rate of income tax."

5. Discounting the element of exaggeration (the corresponding basic rate increase would be 1¼%), this comparison is more difficult to refute. Whilst one might legitimately challenge the description "regressive" (for the great majority of people) it remains true that raising the sums needed by an increase in the basic rate of income tax would be more progressive than higher employee contributions. The Chancellor is of course well aware of this, as he is of the wider arguments against raising the basic rate. But in present circumstances, perhaps the most telling argument is that raising the contributions concentrates the extra cost of financing the health services and the contributory benefits on those who are in work. Raising income tax rateswould also hit pensioners and the sick.

6. Raising contributions, as the Chancellor knows, is certainly less regressive than finding the same money by cutting tax thresholds - or raising them by less than the increase in prices. This is because a cut in allowances reduces take home pay by the same cash sum for all taxpayers within the basic rate band. Thus, a cut of £150 in the married allowance reduces take home pay by 87p a week, whether the husband is earning £50 a week or £200. But at the lower figure the contribution increase will cost him only £50p a week, whereas at the latter figure it will cost him £2.

7. You mentioned also that Ministers had raised comparisons with indirect taxes. This is quite a tricky area and I would strongly advise the Chancellor against trading judgements of the relative "regressivity" or "progressivity" of the different taxes on expenditure relative to the action on contributions. When the Chancellor put up the VAT rate, he strongly resisted

charges that this was regressive, since about half of consumers expenditure is not chargeable. As for the duties on drink and tobacco, the Chancellor will want to retain maximum freedom to consider increases in the Budget. Perhaps the better argument, in present circumstances, is again that increases in indirect taxes would not fall simply on those in work but would extend to pensioners, the sick <u>and</u> the unemployed.

8. There is finally the point, which Mr Kemp has identified that even after the changes announced on Monday the proportion contributors as a whole are paying of contributory benefits has actually gone <u>down</u> slightly for 1981-82 - as the second note shows.

9. The third of the notes below shows how some of these considerations might be brought together for use in the debate on Thursday.

A M W BATTISHILL
26 November 1980

Note 1

IMPLICATIONS OF RAISING £1 BILLION THROUGH THE INCOME TAX

This note sets out the distributional implications of using the income tax to raise an additional £1 billion, through:

(i) a reduction of £100 in the single allowance and £150 in the married allowance (including age allowances); or

(ii) a rise of 1¼% in the basic rate - ie from 30% to 31.25%.

It compares these with the distributional effects of the decision to raise that amount through a 1% increase in the rate of ENIC. The £468m yield from raising the upper earnings limit from £165 to £200 is, of course, quite separate from the yield of the extra 1%.

2. The figures in the attached table are based on current (1980-81) rates and allowances.

3. (i) At earnings of £50, the ENIC change is less severe than a reduction in allowances but more severe than a change in basic rate.

(ii) At earnings of £100 a week, the ENIC change is rather more severe than either of the tax changes.

(iii) At £200, the effect of the increase in the ENIC rate (ignoring the increase in the ceiling) is more severe than a reduction in allowances and about the same as an increase in the basic rate.

(iv) Between £200 a week and the top of the basic rate band (£242.79 for a single person and £257.60 for a married man), the ENIC increase is a flat cash amount, just like the effect on take home pay of cutting the personal allowance by a given amount. But the basic rate increase continues to take 1½p from each additional £ of earnings.

4. Between the old and the new upper earnings limits (£165 and £200 a week) the effects on take home pay of the extra 1% contribution are the same as for lower levels of income. Each additional £ of earnings attracts an additional 1p in contribution. But the aggregate effects on take home pay are increased by the fact that the full contribution (the present 6¾% plus the extra 1%) is payable for the first time on earnings above £165. Thus, for example, at £200 a week, the total increase in contributions is £4.36 made up of (i) £2.36 attributable to the higher ceiling (£6¾% x £35) - (ii) £2 attributable to the extra 1% rate (1% x £200).

5. There is a final important point. The increases in ENIC do not, of course, affect those not in employment - for instance pensioners, and those living wholly on investment income or benefits. They are unquestionably better off than if income tax were increased.

Effect of changes in NIC compared with revenue-equivalent changes in income tax

SINGLE PERSON 1980-81

£ per week (% of net income)

Earnings per week	Effect[1] on weekly net income of: 1% rise in NIC and increase in ceiling to £200 a week	£100 reduction in personal allowance	Increase in basic rate to 31.25%
50	-0.50 (-1.3)	-0.58 (-1.5)	-0.29 (-0.7)
100	-1.00 (-1.4)	-0.58 (-0.8)	-0.92 (-1.3)
200	-2.00[2] (-1.5)	-0.58 (-0.4)	-2.17 (-1.6)

MARRIED COUPLE HUSBAND ONLY EARNING

Earnings per week	Effect[1] on weekly net income of: 1% rise in NIC and increase in ceiling to £200 a week	£150 reduction in married allowance	Increase in basic rate to 31.25%
50	-0.50 (-1.1)	-0.87 (-2.0)	-0.11 (-0.2)
100	-1.00 (-1.3)	-0.87 (-1.1)	-0.73 (-1.0)
200	-2.00[2] (-1.4)	-0.87 (-0.6)	-1.98 (-1.4)

(1) Assumes that all income is earned, and that the employee is not contracted out

(2) £4.36 if the comparison is on the previous ceiling of £165; this represents £2.36 (6¾% on £35 , the difference between £200 and £165) plus £2.00 (extra 1% on £200).

Note 2

According to the Government Actuary's Report, benefits payable from the National Insurance Fund in 1981-82 will be about £17.1 billion, or £2.3 billion (15.6%) up on 1980-81. Assuming the changes now proposed are made, contributions will be about £14.6 billion, up about £1.9 billion (14.8%) on 1980-81.

2. These figures show that contributions are still not financing the whole of the so-called contributory benefits. In 1980-81 they financed about 86.1% of them; in 1981-82 they financed slightly less -85.5%.

3. It is true that in order to finance a given quantity of benefits money must be raised somewhere, and clearly it would be possible to raise it through eg direct taxation, indirect taxation, or whatever. But it makes sense to go for the machinery we have. As the figures above show, there is still a substantial contribution from the general taxpayer to the contributory benefits.

236/26/11

Mr. Kemp
Mr Gilmore

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

HCG

26 November 1980

Mr White

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim,

EMPLOYERS' NATIONAL INSURANCE CONTRIBUTIONS

Mr - attach.

In the light of today's press reports about the impact on employers of changes in arrangements for National Insurance contributions, Treasury and DHSS officials have prepared the attached fact sheet on which Ministers may like to draw in responding to any questions on this topic. The Chancellor will be dealing with the issue in his speech tomorrow in the economic debate.

I am sending copies of this letter to the Private Secretaries to Cabinet Ministers, the Minister of Transport, the Chief Whip and Sir Robert Armstrong.

Yours

John

A.J. WIGGINS

569/26/1

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THE NATIONAL INSURANCE FUND AND NATIONAL INSURANCE CONTRIBUTIONS - FACTS

Contributory social security benefits - retirement pensions, unemployment benefit, sickness benefit, etc.- are paid out of the National Insurance Fund. They will total about £17 billion in 1981-82. The Fund's income comes from employers and employees by way of contributions(in total about £14 billion) with the balance from a Supplement by the general taxpayer and investment income.

2. Contributions are calculated as percentages payable by employers and employees ~~on bands o~~f employees income ~~between~~ up to what is known as the ~~lower~~ upper earnings limit provided their income is above the lower and ~~the uppe~~r earnings limit. Under existing legislation the lower earnings limit must be set at about the level of the single persons pension (£27.15 pw) and the upper earnings limit must be between $6\frac{1}{2}$ and $7\frac{1}{2}$ times that pension. The limits are currently £23 and £165 pw, but following this week's increase in the pension they will go up to £27 and £200 pw from 6 April next.

3. The size of the contributions payable by employers and employees depends on two separate factors :-

(a) the upper and lower earnings limits and

(b) the rates payable.

4. From 1 April next year both rates and levels change. Increases in the levels w have to be made under the existing rules, will raise in total about £470 million through the National Insurance Contributions (and a further £100 million through the National Insurance Surcharge). Of this about £390 million falls to employers and the balance to employees. This is automatic and would have happened without any change in rates. Although the cash amount raised increases on this score, it is broadly maintained in real terms. In effect the system protects the real value of the amounts against inflation.

5. Decisions on rates are less automatic. The Government has decided to raise a further £1 billion from an increase in rates, for the reasons the Chancellor set in his statement on 24 November :-

(a) to keep the Fund in balance having regard to the forecast demands in it;

(b) to maintain the level of health services;

(c) to reduce the support given by the general taxpayer through the Supplement.

6. Having regard to the state of industry the Government has decided that the whole of the £1 billion should be met by employees although normally employers would have met up to perhaps one half of it. This is part of the Government's policy to correct the imbalance between the personal and corporate sectors.

7. The Chancellor's statement on Monday was related to the major policy decision to increase employees rates and leave employers rates un-changed. The increased contributions from both employees and employers resulting from this increase in the limits were regarded as familiar consequence of the system, and so were not dealt with in a short statement. As the Chancellor made clear full details were to be published by the Secretary of State on the following day. This was done.

8. The attached tables set out :-

(a) the relevant figures;

(b) how the rate and limits have moved in recent years.

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Total effects of increase in National Insurance limi[illegible]
and rates in 1981-82

	£ mi[illegible]		
	Employees	Emplo[illegible]	[illegible]tal
Effect of raising earnings limits on contributions	186	2[illegible]	[illegible]68
Effect of raising earnings limits on NI Surcharge	nil	10[illegible]	[illegible]04
Effect of increases in rates	997*	nil	[illegible]97
	1183	3[illegible]	[illegible]69

*includes increased contributions from self-employed a[illegible]tary contributions

Source: Appendix 1 of Government Actuary's Report on [illegible] Financial Provisions of the Social Security ([illegible]tions) Bill 1980 (Cmnd 8091)

Recent Movements of Upper Earnings Limit and Rates*

	Upper Earnings Limit	% Employees Rate	% Employers Rate
6.4.76	95	$5\frac{3}{4}$	$8\frac{3}{4}$
6.4.77	105	$5\frac{3}{4}$	$8\frac{3}{4}$ (+ 2% NIS)
6.4.78	120	$6\frac{1}{2}$	10 (+ 2% NIS, $3\frac{1}{2}$ from 1.10.78)
6.4.79	135	$6\frac{1}{2}$	10 (+ $3\frac{1}{2}$% NIS)
6.4.80	165	$6\frac{3}{4}$	10.2 (+ $3\frac{1}{2}$% NIS)
6.4.81	200	$7\frac{3}{4}$	10.2 (+ $3\frac{1}{2}$% NIS)

*For "not contracted out" contributions

CONFIDENTIAL

PS/CHANCELLOR

cc: Chief Secretary
Mr Burns
Mr Cassell
Mr Evans
Mr Kemp
Mrs Stamler
Mr Folger
Mr Wren-Lewis

NATIONAL INSURANCE CONTRIBUTIONS AND THE FORECAST

You asked me to explain briefly how the NIC changes relate to the PSBR figures presented to the Cabinet.

2. I think the position can be explained most simply as follows. I attach a copy of Table 2 of the Chancellor's Cabinet paper circulated for Cabinet on 19 November. The base PSBR forecast of £11 billion (line 1) itself assumed:-

a. some increase in employers' and employees' contribution rates in order to balance the Fund;

b. an increase in the lower and upper earnings limits to reflect inflation (as required by the statute).

Line 7 of the Table shows the estimated additional effect of the increases in employees' contributions beyond the increases assumed in the base forecast referred to above. The footnote to line 7 referred to the element included in the base forecast.

3. In other words, although the details were not spelt out, the forecast itself already assumed a large proportion (in fact around £1 billion) of the total benefit to the PSBR of the combination of increases in employees' and employers' rates of contribution and changes in the earnings limits.

4. This Table was, of course, a summary table designed to show the main PSBR effects of the Cabinet decisions on the forecast that had already been reported to Cabinet. It naturally did not go into the detailed assumptions underlying the base forecast.

J B UNWIN
27 November 1980

SECRET

TABLE 2

	State of play 30 October 1980 Public exp. late 1979 prices	PSBR Cash (rounded)	1981-82 CASE A Public exp. late 1979 prices	PSBR Cash (rounded)	£bn CASE B Public exp. late 1979 prices	PSBR Cash (rounded)
1. Public expenditure target/ PSBR in forecast	76.2	11	76.2	11	76.2	11
2. Public expenditure proposals						
(a) Increases	2.8)	2½	3.0)	2½	3.0)	2½
(b) Agreed reductions	-0.6)		-0.8)		-0.8)	
3. Total	78.3*	13½	78.4	13½	78.4	13½
4. Public expenditure reductions not yet agreed:						
Defence	-0.5)		-0.15)		-0.5)	
Social security	-0.2)		-0.05)		-0.2)	
Scotland (non-formula)	-0.1)	-1¼	-0.01)	-¼	-0.02)	-1
Health (% cut - GB)	-0.15)		-)		-0.07)	
Other	-0.1)		-)		-)	
5. Total	77.2*	12¼	78.2	13¼	77.6	12½
6. Effect of holding all new public service pay increases to 6%		-½		-½		-½
7. Effect of 1% increase in employees' National Insurance				-½ ø		-½ ø
8. PSBR after all spending adjustments		11¾		12¼		11½

* Figures do not add up to totals because of rounding

ø The PSBR effect is less than thedirect revenue effect (of about £1 billion) because (i) the original forecast already included some increase in contributions in order to balance the current income and expenditure from the National Insurance Fund and (ii) there is some offsetting indirect effect through lower economic activity.

STITUTE OF DIRECTORS

Director General
Walter Goldsmith

D

Mr Battishill
cc Mr Burgner
Mr Bridgeman

27 November 1980

CH/EXCHEQUER

REC.	27 NOV 1980
ACTION	Mr Kemp
COPIES TO	CST
	FST
	Sir D. Wass
	Sir A. Rawlinson

Mr Unwin
Mrs Gilmore
Mr Ridley
Mr Bailey

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
11 Downing Street
London SW1

116 Pall Mall
London
SW1Y 5ED
Telephone
01-839 1233
Telegrams
Boardrooms
London SW1
Telex 21614

Dear Sir Geoffrey,

National Insurance: Employers' Contributions

The Institute of Directors shares the concern that has been generally expressed amongst businessmen at the increasing burden on employers of meeting their part of the contributions to the national insurance fund.

We understand the position under statute law which now involves an increase in employers' contributions. At the same time, we were encouraged by your words in the House on Monday recognising the financial pressures on industry, and expressing your aim that these should not be intensified.

In order that this should not now occur, would you consider making a downward adjustment in the national insurance surcharge paid by employers to match the increase in contributions which they now face as a result of indexation?

The Institute has offered consistent and unswerving support to the Government in its aim to secure a lasting reduction in inflation and believes that industry should continue to support the Government in its present strategy.

I am well aware that the proposal for a cut in the national insurance surcharge would immediately produce a shortfall in the revenue on which the Government is relying, and would thus have implications for the borrowing requirement. However, I cannot believe that all attempts to cut public expenditure are at an end, and I should like to refer you back to our letter to the Prime Minister of 7 October, of which you have a copy, in which we set down proposals for a line of action which would right away make an impact on the Government's commitments.

../

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The proposals you outlined to the House this week do not take effect until the start of the next financial year. During the period that intervenes, therefore, there is an opportunity for a realistic start to be made on the process of privatisation. The sale of the Government's remaining stock in BP, the offer of shares in BNOC, and the sale of convertible debentures in British Airways would right away start to produce funds which would reduce the Government's need to rely on taxation or borrowing to provide revenue.

If the Government were to make a start on disengaging itself from the economy in this way, it would at once redeem some of its more important election pledges and provide a considerable measure of encouragement to the hard pressed business and industrial sectors to continue the battle against inflation. I very much hope that you will give our suggestion your urgent consideration.

With every good wish,
Yours sincerely,

Walter Goldsmith

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CHANCELLOR

cc Principal Private Secretary
Mr Ridley
Mr Cardona

We will all do well to forget about this week as soon as we can. But the events that took place did, I think, highlight one or two organisational problems.

2. These arise partly from your own working technique - the very high speed with which you see and amend successive drafts of something like your Thursday speech. This is a sin of commission, if it is a sin at all, and one does not begin to criticise.

3. But it does mean that the rest of us often feel as if we are rushing round clutching a copy of last year's Bradshaw; and that the comments and amendments we write on it are already pointless because you have probably already seen and altered the copy we have and you are getting ready to move on to the next.

4. The solution may lie in modern word processing apparatus. It may lie in cutting down the number of 'cooks who have their fingers in the broth', and then ensuring that those still on the list really do get up to the moment copies to work on.

5. In my own case, the version of your speech on which I spent quite a time in the course of Thursday morning (in response to your question "have you looked at the speech?") was already way out of date when I received it.

6. In the case of the Monday statement, I saw nothing after the previous Thursday's very preliminary version. I do not entirely exclude the possibility that George Cardona or I might have picked up the point about industry and the £200 limit if we had been given a sight of the final draft.

7. However, this is wisdom after the event. It is more to the point that this trouble should have arisen in Peter Kemp's province, than whom nobody could be more conscientious or careful. That <u>must</u> prove that there is something wrong with the way we prepare things like the Statement.

PJC.

P J CROPPER
28 November 1980

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27.11.80

NOTE OF CHANCELLOR'S OPENING REMARKS IN ECONOMIC DEBATE

National Insurance Contributions

- Reject absolutely the suggestion that I misled the House
- The size of contributions payable (by employers and employees) is calculated under system which took its present shape under the last Government's Social Security legislation of 1975.
- The system provides that the contributions payable (by employers and employees) depend on two separate factors:
  - the percentage rates payable by either side
  - the limits (upper and lower) of the band of earnings on which those rates are levied.

The lower end of that band of earnings is fixed by reference to the value of the single pension. The upper end of that band is fixed at 6½-7½ times the size of that pension.

The legislation requires the pension to be increased from time to time in light of inflation so that the value of the pension is maintained.

Exactly the same legislation requires an increase in the ceiling on the range of income on which contributions are charged.

The system means that both benefits and contributions go up together. Obviously benefits have to be paid for. No-one argues against better benefits.

There is, and was, nothing secret about that system. Nothing secret about the amounts to be paid.

The RHG understands that perfectly well.

The system was established and operated by the Government of which he was a member.

V n he was in office the upper limit of the earnings band was increase each November - in three stages from £90 to £135. When in office, Hon Members opposite adopted the method of informing the House of such changes by written answer. We did precisely the same. Our only crime being to give the House more information in a statement.

I can't recall hearing anything from him about the additional burden on employers - or, come to that, on employees - on any of those occasions.

No more is he entitled to complain about it now.

Not one aspect of the system which we inherited from the party opposite was changed in any way by the decisions that I announced on Monday. What the RHG hasn't told the House is that more than £100 million of the increase of £386 million of which he now complains represents an amount of additional National Insurance surcharge payable as a result of the upper earnings limit going up - something which he himself invented.

I made no change in that.

The only change which I did make - and the only change of which, therefore, I did tell the House - was to raise the percentage rate of contributions, from the employee alone, from 6¾ to 7¾ per cent. I should emphasise that the £1 billion figure I gave for the additional payments by employees' does not include the impact on them of the change in the contributions ceiling, any more than it includes anything payable by employers on that scale.

When rates are increased then it is the normal practice for that increase to be shared about equally between employer and employee.

On this occasion - so far from placing added burdens upon employers - we decided to relieve them of their normal share.

the extra revenue from the change in rate, of which I told the House on Monday, not one penny will be paid by employers.

We have protected the employer from any fresh burden. The RHG did exactly the opposite.

In 1977 he introduced the surcharge at 2 per cent. In 1978 he raised it to $3\frac{1}{2}$ per cent. In the same year, he raised the employers' NIC rate by $1\frac{1}{4}$ per cent, as against $\frac{3}{4}$ per cent for the employee.

He is the last person to have any right to criticise the steps which we have taken.

NATIONAL INSURANCE FUND AND THE NATIONAL INSURANCE SURCHARGE

£ million

	NI FUND					NI SURCHARGE			
	Employees	%	Employers	%	Total Employees + Employers	Employers	%	Total Employees + Employers contributions + NIS	Total Employers contributions + NIS
Contributions in 1980-81*	5,253		8,238		13,491	3,486		16,977	11,724
1981-82 increase from increased earnings etc**	311	5.9	394	4.8	705	191	5.4	896	585
Sub-total	5,564		8,632		14,196	3,677		17,873	12,309
1981-82 increase from changes in earnings limits	186	3.5	282	3.4	468	104	3.0	572	386
1981-82 increase from increased rates (1%)***	947	18.0	-	-	947	-	-	947	-
Total contributions in 1981-82	6,697	27.4	8,914	8.2	15,611	3,781		19,392	12,695
Total increase in 1981-82	1,444		676		2,120	295		2,415	971

* including NHS and, for employers, redundancy and maternity funds

** includes population and employment changes

*** these result from class 1 contributions. A further £50 million should be added for class 2, 3 and 4 contributions (self-employed and voluntary) to give the total of £997m as the increase in income attributable to the change in rates.

Note To [illegible]

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CONFIDENTIAL

Copy attached for :

Chief Secretary
Financial Secretary

cc Sir Anthony Rawlinson
Mr Ryrie
Mr Burns
Mr Bailey
Mr C D Butler

1. SIR DOUGLAS WASS

2. CHANCELLOR OF THE EXCHEQUER

At my request Mr Kemp has now cleared the draft with the DHSS. I think therefore that it would be desirable to copy this minute to the S/S for Social Services.

DW. 2/12

NATIONAL INSURANCE CONTRIBUTION ETC

I understand you have had sight of the sketch of recent events in respect of National Insurance Contribution and Surcharge decisions which I submitted to Sir Douglas Wass earlier today, and that you now wish to minute the Prime Minister with the gist of what was said there.

2. I attach a draft. At Sir Douglas Wass' suggestion this also includes a positive statement that you will wish to stand fast on the proposals that are set out in the Social Security (Contributions) Bill, and not give any concession to employers by any modification there. If anything is to be done for employers, the draft says, this would be a matter for consideration at the time of the Budget in the light of all the circumstances then.

3. You will wish to consider whether or not the minute should be copied to the Secretary of State for Social Services.

E P KEMP

1 December 1980

CONFIDENTIAL

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DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO

Prime Minister

NATIONAL INSURANCE CONTRIBUTIONS AND NATIONAL INSURANCE SURCHARGE

In the light of ~~reactions to~~ the hubbub which developed after my statement of last week, I ~~have~~ felt that I should reviewed the Treasury's role in the events leading up to the decisions that were taken. I have looked particularly at the decision to set the Upper Earnings Limit for National Insurance purposes at £200 per week rather than £190 per week, and at how my statement came to be drafted as it was.

Upper Earnings Limit

2. The setting of the Upper Earnings Limit must be seen as something separate from the exercise which we called ENIC. ENIC (Employees National Insurance Contribution) was the name given to the proposal to raise substantial additional sums from employees during 1981-82 to help with the PSBR. I mentioned this to you on 6 November, when you said you were in principle in favour of the idea. ENIC was discussed at Cabinet on 13 November on the basis of an oral presentation by myself, and our colleagues (many of whom no doubt regarded it as an alternative to the expenditure cuts, which they had already rejected) agreed to it. ~~I regard~~ In that context, I regarded this particular proposal as worthwhile and extremely valuable, indeed essential, buttress ~~in the context~~ of our fiscal policies.

3. The question of the Upper Earnings Limit was first discussed substantively between myself and the Secretary of State for Social Services at a meeting on 12 November. I had wanted to go for £200 per week, while the Secretary of State wanted £190. £200 was within the rules which say that the Limit must be within $6\frac{1}{2}$ and $7\frac{1}{2}$ times the single pension, though towards the end of that bracket. Nevertheless, I felt we should go for the higher figure both by way of helping with the PSBR and making the whole move marginally less regressive (you will know that for many years it has been the policy of the TUC and elements in the Labour Party to get rid of the Upper Earnings Limit completely). The Secretary of State preferred £190 in terms of the

effect of the higher figure on employees in the £190-£200 per week bracket - broadly the middle management. It was my Under Secretary who in the course of the meeting pointed out that the higher Earnings Limit meant additional payments by employers, and that this was an argument in favour of the lower figure. No agreement was reached with the Secretary of State at that meeting, but at a further meeting on the 14 November he withdrew his objection to the figure of £200. The agreement between myself and the Secretary of State in this matter was set out in a note by officials which I sent to you on 18 November and which was tabled at Cabinet on 20 November. This made it clear that we were going for £200 per week, and that while it did not affect public expenditure totals it increased the surplus on the National Insurance Fund by about £100 million and thus reduced the PSBR by the same amount in 1981-82. The split between employees and employers was not mentioned. At Cabinet on 20 November it was agreed that the Upper Limit for National Insurance Contribution purposes should be set at £200 per week.

4. The question of the effect on employers was raised by the Secretary of State with my officials, through his, on 21 November, and I subsequently spoke to him on 24 November. He later minuted to you on the same day saying :

> "Cabinet were concerned last week to be assured that the changes we are about to announce in NI Contribution rates will not fall on employers, and it is of course the case that the change in rates are all to be loaded on employees. Colleagues did however understand that some extra burden will inevitably fall on employers through the raising of the Upper Limit of earnings on which contributions are charged .... this follows automatically from the indexation of the contribution income, and it is an inescapable feature of the annual adjustment of the NI Contribution system ... however I do not believe that colleagues realised (certainly I had not realised) that the effect of this would be to bring with it the consequential national insurance surcharge ...".

The Secretary of State went on to say the total amount of surcharge involved in raising the threshold from £165 to £200 was £104 million; of this

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(though he did not mention the figure) £24 million is attributable to the difference between £190 and £200 per week. I commented on the Secretary of State's points in my minutes of 24 and 25 November to you, and we subsequently discussed the matter with the results set out in your Private Secretary's letter of 25th.

/The Secretary of State and myself,

5. The conclusion I draw is that while our officials might more strongly have emphasised to / and we might them more strongly [illegible] emphasised to our colleagues, that there was an effect on employers, by way of increased contributions payable, as between £190 and £200, we ~~was~~ were certainly aware that such an effect existed and of its magnitude; and ~~so~~ [illegible] should ~~my~~ [illegible] colleagues ~~have been through~~ who are familiarity with the system, [illegible] ~~and the~~ reference to the Upper Earnings Limit in the note tabled on 20 November. However the effects of the difference between £190 and £200 so far as surcharge went (£24 million) was not brought out explicitly. There were perhaps three reasons for this. First, as I say we were primarily concerned with the £1 billion ENIC exercise which did not affect the surcharge in any way. Second, we in the Treasury were aware that the amount of surcharge involved was relatively very small indeed (total surcharge take is about £3.5 billion and we knew that ENIC favoured employers by perhaps £500 million). Finally, [illegible] ~~I fear we~~ assumed too much familiarity on the part of other people with the system, and in particular with the fact that the machinery is such that the surcharge and contribution ride together so that when ceilings go up and contributions go up, so, necessarily, does the surcharge.

[illegible]

6. Perhaps I could add that even if, contrary to the precedents of previous years, there had been explicit discussion collectively about £190 versus £200, I should have argued very strongly for £200, and I would have hoped to pursuade my colleagues to agree with me. The higher figure helps with the PSBR. For employees as a whole it makes the move marginally less regressive. And for employers, only about one-third of surcharge and contribution is payable by manufacturing industry, so a reduction in that burden is a "wasteful" way ~~to help them~~. At a meeting on 25 November you said that if amendments were put down to the Social ~~Secretary~~ Security (Contributions) Bill designed to ameliorate the burden on

[illegible] who most need help.

employers, these would have to be discussed in E Committee. I should say now that I should be strongly against any concession whatsoever to employers in the Bill. If something is to be done ~~for employers,~~ ~~this~~ must be left until Budget time and decided in the light of all the circumstances then.

The Announcement

7. This is a separate matter. What I said on the 24th was accurate and reflected the policy changes that had been decided - ie ENIC and the 1 per cent increase in employees rates. It is arguable ~~clear that~~ with hindsight, and in the light of events, that it would ~~it would~~ have been better had the other effects, which to us were obvious, had been mentioned. One factor in this may have been the late decision that the Government Actuary's report, the Bill and Mr Jenkin's PQ - which together gave the whole story - should not be published on the 24th as we had originally assumed when drafting the statement, but on the 25th. Had they been published on the 24th all the facts would have been clear. The consequences of this last minute change - which was made in order to avoid the risk of leaks and speculation which would follow from the appearance on Monday's Order Paper of a "Social Security (Contributions) Bill" - were not spotted by officials or Ministers, either in the DHSS or the Treasury. Whether, even if they had been spotted, I would have wanted to lengthen what I said by including what might, before the event, have seemed like an unnecessary statement of the obvious, is perhaps debatable. But if the sentence had been put in, even if it had then been struck out, I might have been better able to deal eg with the Campbell-Savours question.

8. [I am copying this minute to the Secretary of State for Social Services.]

Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Bailey
Mr. Middleton
Mr. Battishill
Mr. Burns
Mr. Bridgeman
Mr. Burgner
Mr. Dixon
Mr. Unwin
Mr. C.D. Butler
Mr. ~~E.P. Kemp~~
Mr. Ridley
Mr. Cropper
Mr. Cardona

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CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street, S
01-233 3000

2 December

W. Goldsmith, Esq.,
Director General,
Institute of Directors,
116, Pall Mall,
LONDON. SW1Y 5ED

Dear Walter

Thank you for your letter of 27th November.

Let me say at once that the Government are very much aware of the situation of manufacturing industry. But at the same time it is vital that public sector borrowing should be kept within bounds, so that we can look forward to further reductions in interest rates. The need to balance the interests of industry with the objective of lower interest rates was reflected in my decision to confine to employees the increase in national insurance contribution rates announced last week. Normally one would have expected employers to take one half or more of any increase in rates.

There will of course be an increase in the total contributions paid by employers next year as a result both of the statutory revalorisation of the earnings limits and of increases in money earnings. But the resultant total increase in amounts payable by employers in respect of contribution and surcharge is expected to be only just over 8 per cent (i.e. a fall in real terms) compared with a total increase of around 27 per cent for employees. So there is a very substantial shift of the relative burden in favour of employers.

You will appreciate that it is by no means easy in present circumstances for me to propose all sorts of tax reductions which in themselves would be desirable. And in so far as I have room to give fiscal reliefs, it seems to me essential that changes should be directed as precisely as possible to those areas where the need is greatest. A reduction in the surcharge would not, I think, meet this criterion, since

/only

89 3/12

only one third of the benefit would go to manufacturing. The change announced last month in stock relief, by contrast, does concentrate the help in areas of greatest need - to the tune of around £300 million next year.

I have considered carefully what you say about public expenditure and privatisation. On public expenditure, I announced last week decisions to make volume reductions totalling £1 billion in most public expenditure programmes in order to offset part of the upward pressures on expenditure arising largely from the recession. Reducing public expenditure is not an easy exercise and in order to reach a total of £1 billion we have had to take some very painful decisions. So far as privatisation goes, we are pressing ahead with a programme of asset sales as fast as it practicable. As you know we met our target of £1 billion of sales last year. Our target this year is £½ billion, and future legislation to facilitate privatisation measures involving the British Railways Board, British Transport Docks Board and BNOC was announced in The Queen's Speech. It may be as well, however, to remember that company flotations may not be easy in present economic circumstances, and that there are limits to the extent to which it would be prudent for the public sector to sell assets in order to meet a level of current expenditure which we could not sustain in the long run.

I am grateful for your Institute's constant support in our efforts to secure lasting reduction in inflation. The various decisions I announced last week were designed to further the Government's medium term strategy of securing a sustained reduction in inflation through a reduction in monetary growth and firm fiscal policies. The achievement of these objectives will benefit everybody, employers included. Within the constraints of these overriding objectives we will, of course, naturally keep the position of industry under review and will take any further measures which may seem necessary.

I know that you spoke to my Private Secretary about the handling of our correspondence. I think it would be best if this letter were not to be released generally.

Geoffrey

GEOFFREY HOWE

CONFIDENTIAL

cc CST
FST
SIR D WASS
SIR A RAWLINSON
MR RYRIE
MR BURNS
MR BAILEY
MR KEMP
MR C.D. BUTLER

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONAL INSURANCE CONTRIBUTIONS AND NATIONAL INSURANCE SURCHARGE

In the light of the hubbub which developed after my statement of last week, I felt that I should review the Treasury's role in the events leading up to the decisions that were taken. I have looked particularly at the decision to set the Upper Earnings Limit for National Insurance purposes at £200 per week rather than £190 per week, and at how my statement came to be drafted as it was.

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/3. The question

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3. The question of the Upper Earnings Limit was first discussed substantively between myself and the Secretary of State for Social Services at a meeting on 12 November. I had wanted to go for £200 per week, while the Secretary of State wanted £190. £200 was within the rules which say that the Limit must be within 6½ and 7½ times the single pension, though towards the end of that bracket. Nevertheless, I felt we should go for the higher figure both by way of helping with the PSBR and making the whole move marginally less regressive (you will know that for many years it has been the policy of the TUC and elements in the Labour Party to get rid of the Upper Earnings Limit completely). The Secretary of State preferred £190 in terms of the effect of the higher figure on employees in the £190-£200 per week bracket - broadly the middle management. It was my Under Secretary who in the course of the meeting pointed out that the higher Earnings Limit also meant additional payments by employers, and that this was a possible separate argument in favour of the lower figure. No agreement was reached with the Secretary of State at that meeting, but at a further meeting on the 14 November he withdrew his objection to the figure of £200. The agreement between myself and the Secretary of State in this matter was set out in a note by officials which I sent to you on 18 November and which was tabled at Cabinet on 20 November. This made it clear that we were going for £200 per week, and that while it did not affect public expenditure totals it increased the surplus on the National Insurance Fund by about £100 million and thus reduced the PSBR by the same amount in 1981-82. The split between employees and employers was not mentioned. At Cabinet on 20 November it was agreed that the Upper Limit for National Insurance Contribution purposes should be set at £200 per week.

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66

4. The question of the effect on employers was raised by the Secretary of State with my officials, through his, on 21 November, and I subsequently spoke to him on 24 November. He later minuted to you on the same day, saying:-

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/myself, and we

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myself, and we might then more strongly have emphasised to our colleagues, that there was an effect on employers, by way of increased contributions payable, as between £190 and £200, we were certainly aware that such an effect existed and of its magnitude; the same should have been apparent to those of our colleagues who are familiar with the system, if only because of the reference to the Upper Earnings Limit in the note tabled on 20 November. However the effects of the difference between £190 and £200 so far as surcharge went (£24 million) were not brought out explicitly. There were perhaps three reasons for this. First, as I say we were primarily concerned with the £1 billion ENIC exercise which did not affect the surcharge in any way. Second, we in the Treasury were aware that the amount of surcharge involved was relatively very small indeed (total surcharge take is about £3.5 billion and we knew that ENIC favoured employers by perhaps £500 million). Finally, I am afraid we may have assumed too much familiarity on the part of other people with the system, and in particular with the fact that the machinery is such that the surcharge and contribution ride together so that when ceilings go up and contributions go up, so, necessarily, does the surcharge.

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/manufacturing

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manufacturing industry, so a reduction in that burden is a "wasteful" way to those employers who most need help. At a meeting on 25 November you said that if amendments were put down to the Social Security (Contributions) Bill designed to ameliorate the burden on employers, these would have to be discussed in E Committee. I should say now that I should be strongly against any concession whatsoever to employers in the Bill. If something is to be done in that direction then it would need to be carefully designed - and must be left until Budget time and decided in the light of all the circumstances then.

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including what might, before the event, have seemed like an unnecessary statement of the obvious, is perhaps debatable. But if the sentence had been put in, even if it had then been struck out, I might have been better able to deal eg with the Campbell-Savours question.

8. I am copying this minute to the Secretary of State for Social Services.

A Wiggins

for (G.H.)

2 December 1980

(approved by the Chancellor and signed in his absence)

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PWP

Mr Kemp 4/12

10 DOWNING STREET

CST

From the Private Secretary

FST

3 December 1980

Sir D Wass

Sir A Rawlinson

Mr Ryrie

Mr Bailey

Mr CD Butcher

Mr Burns

Dear John,

At their meeting this evening, the Prime Minister and the Chancellor briefly discussed the events of last week relating to the National Insurance contributions paid by employers. The Chancellor said that, as explained in his minute of 2 December, he would be strongly opposed to any concession now being made to ameliorate the burden on employers if, for example, amendments were put down to the Social Security (Contributions) Bill. The Prime Minister said that she too was opposed to any concession being given, and she agreed with the Chancellor that they should resist having the issue reopened in Cabinet or in E Committee.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours ever

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

CDS

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CST HAVE CIRCULATED

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
London SW1

3 December 1980

Dear Chancellor

NATIONAL INSURANCE CONTRIBUTIONS : EMPLOYERS

I had a useful discussion with back benchers yesterday evening on the provisions of the Social Security (Contribution) Bill and I think we may be confident of support at Second Reading next Monday. Unless the debate takes an unexpected turn, I do not believe we shall come under any great pressure from our own side to make concessions to employers on their national insurance contributions. Certainly my own position, like yours, is that we should not change the contribution rate or limits as set out in the Bill and we have some telling figures in support of this to put before the House. You will have seen, for example, the table which shows that employers' contributions will increase, in cash terms, by 8.3 per cent in the next financial year while employees' contributions will rise by 27.4 per cent. (This impressed Paul Dean who had been earlier threatening to press an amendment.)

The timetable next week is, however, a very tight one. We shall not know the strength of feeling in the House until Monday evening; amendments will go down on Tuesday; and E Committee - whose approval will be necessary to any concessions - meets on Wednesday. I think, therefore, it would only be prudent to clear our minds this week on possible concessions, against the eventuality that we might need to refer this issue to colleagues urgently next week.

There are three ways in which we might ease the burden of employers, leaving aside any generalised statements which John Biffen may feel able to make during the debate promising additional help to industry in the Budget:

i. Reduce the upper earnings limit to £190. This would reduce the total contributions of both employers and employees by £48 million and £42 million respectively. The NI surcharge would be reduced by £24 million. The National Insurance Fund would be put in deficit by £64 million. (I do not think we ought to consider the intermediate level of £195 - too trivial to count.)

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ii. Reduce the employers' contribution rate by 0.1 per cent. This would reduce employers' contributions by approximately £98 million in 1981/82. Again the National Insurance Fund would be in deficit, by £80 million.

iii. Reduce the NI surcharge. Our advice is that this would not be possible in the Contributions Bill since an amendment to the surcharge rate would be outside the scope of the long title. (Apparently, the Clerks are giving different advice - and what they say goes!) If our lawyers are right, it would seem that the only way of achieving such a reduction would be a separate, one clause, Bill introduced by you. I think this option must be ruled out.

As to the first two options, I must say that I find the second decidedly unattractive. It has the severe presentational disadvantage of reducing the employers' contribution rate at a time when the employees' rate is being increased by a full percentage point. The first option, by contrast, eases the pressure on both employers and employees. As to the effect on the Fund, there is little between the options.

I hope therefore that you will agree that, <u>if</u> it does become necessary to put

I am copying this letter to the Prime Minister, the other members of E Committee and Sir Robert Armstrong.

Yours sincerely

Mary McVerry

MARY McVERRY (MRS)
approved by the Secretary of State and signed in his absence

SSCS 17 73

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Burns
Mr Bailey
Mr Battishill
Mr Unwin
Mr C D Butler
Mr Ridley
Mr Cropper
Mr Cardona

NATIONAL INSURANCE (CONTRIBUTIONS) BILL

As we expected Mr Jenkin has now written to you (his letter of 3 December) about possible concessions on the Social Security (Contributions) Bill. He reports that he has had a helpful meeting with Backbenchers, and he says he thinks the Government may be confident of support at Second Reading. He goes on to say that he does not think that the Government will come under any great pressure from their own side to make concessions to employers on National Insurance Contributions. However while repeating that his own position, like yours, is that the provisions of the Bill should stand, he then goes on to rehearse possible concessions. He suggests that if it becomes necessary to put the question back to colleagues (because for instance there is a real risk of defeat in Committee) this should be on the basis that the preferred concession is to move from the Upper Earnings Limit of £200 per week to £190.

2. None of this is unexpected, and certainly we would agree that if a concession had to be given clearly the move to £190 would be a sensible one. It has the merit of helping both employees and employers, thus being even-handed in a situation where employers are already substantially favoured. Of the other proposals, reducing the employers contribution rate is bizarre in terms of Fund logic and helps employers without helping employees; while reducing the surcharge itself is not possible within the scope of the Social Security (Contributions) Bill. A concession to £190 would adversely affect the PSBR in 1981-82 by £114 million, of which £72 million would accrue to employers and £42 million to employees; and would put the National Insurance Fund into deficit by about £64 million.

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3. However there is no doubt that it is very undesirable indeed to make any concession at all. You have already said, in your minute of 2 December to the Prime Minister, that you wish to stick to £200. The reasons for this are; first, the figure of £104 million helps with the PSBR; secondly, for employees as a whole it makes the move marginally less regressive; and thirdly, for employers only about one-third of the surcharge and contribution is payable by manufacturing industry so that a reduction in the burden is a wasteful way of helping people who need most help. You went on to say that if something is to be done for employers it should not be done in the context of the Bill, but would have to be carefully designed and left until Budget time and decided in the light of all the circumstances then.

4. In the light of Mr Jenkin's report about his meeting with Backbenchers it seems possible, fortunately, that the question of making a concession in order to avoid defeat may not arise. Nevertheless, you may wish to put on record with E Committee your view in this matter and a draft letter is below.

5. You will have noted from the No 10 letter of 3 December that the Prime Minister agrees that no concession should be given, and, what is more, that she would resist having the issue re-opened in Cabinet or E Committee. This letter was not, however, copied to anyone except the Cabinet Office (not even DHSS) and it seems undesirable to refer to it in the present draft. No doubt the Prime Minister will join in to support you at the right moment.

E P KEMP

4 December 1980

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DRAFT LETTER FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO :

Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
SE1

NATIONAL INSURANCE (CONTRIBUTIONS) BILL

Thank you for your letter of 3 December.

I am glad to hear that you had a useful discussion with Backbenchers, and that you think we may be confident of support next Monday at Second Reading of the Social Security (Contribution) Bill.

You go on to outline possible concessions that might be given if, notwithstanding the attitude of Backbenchers, something is necessary in order to avoid defeat. I am inclined to agree that <u>if</u> we do have to do something, your first preferred option (reducing the Upper Earnings Limit to £190 per week) is the least unattractive. As you say, it has the merit of helping employees as well as employers, in a situation where, notwithstanding all the noise, employers are already decidedly favoured. However I should make it clear now to you, and to my colleagues, that I would be strongly against making this (or indeed any other) concession on the Bill. To move to £190 would lose us over £100 million on the PSBR in what is going to be a very difficult year; from the point of view of employees it would make the move marginally more regressive; and so far as employers go, since only one-third of contribution and surcharge is paid manufacturing industry, it is a pretty inefficient way of helping those we really want to help. If anything is to be done to help employers, then it would need to be carefully designed and should left until Budget time and decided in the light of all the circumstances then.

I accept that we may have to consider this possible concession if the Parliamentary situation demands it. But I shall want a very great deal of persuading that such a situation has arisen.

I am copying this letter to the Prime Minister, the other Members of E Committee and Sir Robert Armstrong.

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SSCS 17

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Ryrie
Mr Burns
Mr Bailey
Mr Battishill
Mr Bridgeman
Mr Unwin
Mr Dixon
Mr C D Butler
Mr Ridley
Mr Cropper
Mr Cardona

NATIONAL INSURANCE (CONTRIBUTIONS) BILL

After I had submitted my advice to you yesterday on Mr Jenkin's letter of 3 December, I learned that the matter had been briefly discussed at Cabinet in the morning. Although the minutes do not record it, I understand that Mr Jenkin reported his successful meeting with backbenchers, and in the light of that the feeling was left that no concession should be necessary on the Bill.

2. Because the minutes are silent on the subject, it is not clear how far yesterday's discussion has now overtaken the Prime Minister's ruling (her Private Secretary's letter of 25 November) that if any amendments are put down to the Bill designed to mitigate pressures on employers, these should be discussed in E Committee. I hope very much we can regard that ruling as now dead. But since the point was not recorded, you may wish to write round on the lines of the draft attached, with a view first to putting your opinion firmly on the table, and second to making it easier to ensure that there does not have to be any further discussion of the point. A draft is below.

EK

E P KEMP
5 December 1980

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DRAFT LETTER FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO

Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
London SE1

NATIONAL INSURANCE (CONTRIBUTIONS) BILL

Thank you for your letter of 3 December. We discussed the matter briefly at Cabinet on Thursday, when you reported that you thought that following your discussion with backbenchers there is now little risk of any amendment being put down from our side to the Bill.

This means, I hope, that we need not think in terms of any concessions. If - I repeat if - it nevertheless becomes necessary to do something in order to avoid defeat, I am inclinedto agree with you that the least unattractive course would be to reduce the Upper Earnings Limit to £190 per week. This would have the merit of helping employees as well as employers, in a situation where, notwithstanding all the noise, employers are already decidedly favoured. However [as I said in Cabinet] I should be strongly against making this, or indeed any other, concession on the Bill, and I should want a great deal of persuading that one was necessary. We will keep the position of employers under review, and if we have to do anything this should be carefully designed and left until Budget time, and decided in the light of all the circumstances then. I hope we can all agree to adopt this approach.

I am copying this letter to the Prime Minister, the other Members of E Committee and Sir Robert Armstrong.

CONFIDENTIAL

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

GTN Code 213

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDN
SW1P 3AG

CH/EXCHEQUER

REC.	15 DEC 1980
ACTION	Mr Dixon
COPIES TO	CST
	FST
	Sir D Wass
	Mr Ryrie
	Sir A Rawlinson

Mr Middleton
Mr Bailey
Mr Kemp
Mr Battishill
Mr Unwin
Mr Ridley
Mr Cropper

PS/IR

15 December 1980

Dear Geoffrey

EFFECTS OF INCREASED NATIONAL INSURANCE CONTRIBUTIONS ON PAY BARGAINING

The increased National Insurance Contributions payable by employees from next April, which you recently announced, and which are provided for in the National Insurance (Contributions) Bill, will have a significant effect on employees' take home pay and on the Tax and Prices Index; and we need to bear in mind the potential effects on future pay negotiations.

... I attach some examples which have been sent to me by a company which has recently, and with some difficulty, negotiated settlements in the 7/8% range. As you will see the combined effect of tax and the new NI contributions will be to claw back about half of the negotiated increases. The changes bear most heavily on the craftsmen. In the case of example B the employee concerned will, as from April, take home only £7.62 of his gross increase of £16 a week. In other words over 52% of his pay increase is lost to him.

The company is worried that once the size of the claw back is fully understood by trade union officials and by individual employees, there will be pressure for the settlements to be re-opened. They also fear that it will be harder to negotiate single figure settlements in future. We may find these attitudes reflected more widely. You will no doubt remember that Sir Derek Ezra concluded before the result of the miners' ballot was known, that the result would be significantly affected by the announcement about increased NI contributions.

I am not, of course, suggesting that we should reconsider decisions already taken, or contemplate concessions on the Bill, unless we find ourselves obliged to do so by our own back benchers. But I am sure you will agree that we need to be very much aware of the potential effect on pay bargaining of the increased NI contributions; and to take it fully into account when considering any changes in personal taxation for the next Budget.

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887/16/12

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CONFIDENTIAL

SECRETARY OF STATE FOR EMPLOYMENT

I am sending copies of this letter to Patrick Jenkin, to the other members of E Committee, and to Sir Robert Armstrong.

Yours

Tom

EXAMPLE A

CRAFTSMAN

Pension Fund member, Married, 2 Children, Tax Code 214H

	Present	New
	£ per wk	£ per wk
Earnings	175	190
Employee NI contribution	7.59	10.65
Employee Tax	39.90	44.40
Company NI contribution	16.21	18.70

Basic wage increase	=	£8.15 per week	
Earnings increase	=	£15.00 per week	
NI increase	=	£3.06 per week	(£3.06)
Tax increase	=	£4.50 per week	
Net increase		£7.44 per week	

Company pays extra	=	£2.49 per week	(£2.49)

(   ) increase due to Government NI changes

EXAMPLE B

CRAFTSMAN

Pension Fund Member, Married, 2 children, Tax Code 214H

	Present	New
	£ per week	£ per week
Earnings	200	216
Employee NI contribution	7.59	11.17
Employee Tax	47.40	52.20
Company NI contribution	16.21	19.62

Basic wage increase	=	£8.15 per week	
Earnings increase	=	£16.00 per week	
NI increase	=	£3.58 per week	(£3.58)
Tax increase	=	£4.80 per week	
Net increase	=	£~~6.62~~ 7.62 per week	
Company pays extra	=	£3.41 per week	(£3.41)

(   ) increase due to Government NI changes

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EXAMPLE C

GRADE B

Married Woman, Pension Fund Member, Tax Code 137L

	Present £ per week	New £ per week
Earnings	65.50	70.54
Employee NI contribution	3.36	4.38
Tax	11.40	12.90
Company NI contribution	7.06	7.71

Basic wage increase	=	£5.04 per week	
Earnings increase	=	£5.04 per week	
NI increase	=	£1.02 per week	(£0.81)
Tax increase	=	£1.50 per week	
Net increase	=	£2.52 per week	
Company pays extra		£0.65 per week	(£0.19)

(   ) increase due to Government NI changes

EXAMPLE D

GRADE D

Night shift, Pension Fund Member, Married Man, 2 children, Tax Code 214H

	Present	New
	£ per week	£ per week
Earnings	94.11	101.68
Employee NI contribution	4.57	6.01
Tax	15.60	18.00
Company NI contribution	9.69	10.57

Basic wage increase	=	£5.68 per week	
Earnings increase	=	£7.57 per week	
NI increase	=	£1.44 per week	(£1.12)
Tax increase	=	£2.40 per week	
Net increase	=	£3.73	
Company pays extra		£0.88 per week	(£0.18)

( ) increase due to Government NI changes

EXAMPLE E

1-6-85

GRADE L MANAGER

Pension Fund member, Married Man, 2 children, Tax Code 214H

	Present £ per mth	New £ per mth
Earnings	961	1047
Employee NI contribution	32.88	48.45
Tax	234.30	260.10
Company NI contribution	70.26	85.03

Earnings increase =	£86 per month	
NI contribution increase	£15.57 per month	(£15.57)
Tax Increase	£25.80 per month	
Net increase	£44.63 per month	
Company pays extra	£14.77	(£14.77)

( ) increase due to Government NI contribution changes

CONFIDENTIAL

cc Chief Secretary
Financial Secretary
Minister of State (C)
Sir Douglas Wass
Mr Ryrie
Sir Anthony Rawlinson
Mr Middleton
Mr Bailey
Mr Kemp
Mr Unwin
Mr C D Butler
Mr Todd
Mr Kelly
Mr Cropper

PS/Inland Revenue
Mr Stewart - IR
Mr Flaxen - IR

PS/MINISTER OF STATE (L)

NATIONAL INSURANCE CONTRIBUTIONS AND INCOME TAX (NICIT)

The Chancellor has seen Mr Corlett's minute to you of 30 December and the attached report on possible future changes in the relationship between National Insurance Contributions and Income Tax. He looks forward to receiving the Minister of State (L)'s reactions to these papers, and would be grateful if at the same time he would comment on the paper by Geoffrey Fox circulated by Mr Tolkien on 18 December.

PJ

P S JENKINS
5 January 1981

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JTC
HCS

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr Ryrie
Sir A Rawlinson
Mr Middleton
Mr Bailey
Mr Dixon
Mr Kemp
Mr Battishill
Mr Unwin
Mr Ridley
Mr Cropper
Mr Rayner

Mr White

EFFECTS OF INCREASED NATIONAL INSURANCE CONTRIBUTIONS ON PAY BARGAINING

I am sorry that because of absences over the Christmas period we have not submitted earlier advice on Mr Prior's letter of 15 December.

There are a good many detailed points one could make in rebuttal of what Mr Prior says. His reference to concessions in response to pressure from the Government backbenchers is odd, since no amendments were put down to the Social Security (Contributions) Bill by Government backbenchers in the Commons; he has taken the National Insurance changes in isolation; and he applies next years National Insurance contributions to this years income tax regime.

However, we suggest that a lengthy reply is unnecessary. The points that it does seem necessary to get across are that real personal incomes are going to fall, and that the Government has deliberately shifted some of the burden of taxation and contributions from employers to employees. There is no way of making this painless.

A draft reply is attached. It has been agreed with SS, FP and CU.

M S BUCKLEY
7 January 1981

33/12/1

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DRAFT LETTER TO: Secretary of State for Employment

COPIES: Secretary of State for Social Services, Other members of E Committee, Secretary of the Cabinet

EFFECTS OF INCREASED NATIONAL INSURANCE CONTRIBUTIONS ON PAY BARGAINING

Thank you for your letter of 15 December.

Of course we must stand firm on the decisions we have taken. As you know, the Social Security (Contributions) Bill has now gone to the Lords as introduced; none of the Opposition amendments in the Commons passed, and no amendments at all were put down by our own backbenchers. This is very satisfactory.

As for the future, although the examples you give are rather selective (and seem to me to run together this years tax regime with next year's National Insurance contribution regime), I will naturally take what you say fully into account in preparing the next Budget. We should not, however, overestimate the room for manoeuvre. The economic situation dictates that there should be a fall in real personal incomes; and a major effect of the decisions we announced in November was to shift part of the burden of taxes and contributions from firms to employees. This is bound to show up in the pay packet in one way or another. Certainly it cannot be accepted as a valid reason for higher pay settlements.

I am sending copies of this letter to the other recipients of yours.

P/P 1/10

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MINISTER OF STATE (LORDS)
TREASURY

Mr Moore PC

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Sir D Wass
Mr Ryrie
Sir A Rawlinson
Mr Middleton
Mr Bailey
Mr Kemp
Mr Unwin
Mr C D Butler
Mr Todd
Mr Kelly
Mr Cropper
PS/Inland Revenue

NATIONAL INSURANCE CONTRIBUTIONS AND INCOME TAX (NICIT)

1. I start with the general proposition that we are unlikely to have sufficient money by 1984 to achieve our twin objectives of a 25% basic rate and a 50% increase in thresholds in real terms.

Even if we are to take a sizeable step in this direction it will need some transfer of taxation from direct to indirect or more widely from the income tax to something else. The possibilities of further substantial increases in indirect tax are very slender. This therefore points to "something else" and the best of the "something else" is the ENIC, particularly as there is the added argument that there is no logical reason why the Exchequer <u>should</u> be paying part of the cost of a contributory scheme.

2. Ideally a change of this sort should be made in a single Budget. If it is, the overall reduction in tax liability which emerges will go a long way to answer or at least obscure criticism. But it is unlikely that the opportunity will present itself.

31/12/1

This being so, action would inevitably have to be spread over a period of years despite all the difficulties and disadvantages this entails. Such a course would only be possible if there were prior agreement among colleagues not only that it should be done, but once embarked upon should be pressed to a successful conclusion. It is within the bounds of possibility that a change of this nature could be encompassed within two years. That is certainly the objective to which I would work. On this basis, I would strongly recommend that we press ahead with the development of a feasible scheme.

3. The wider proposition, namely a flat rate tax to replace the present income tax and national insurance contributions up to

had to abandon the tax credit approach this seems to me to be the only practicable way forward. But once we embarked on something as radical as this we should need to reconsider other major issues; for example the contributory principle itself ie should benefits depend on a contribution record or on some other criterion: and also the question whether benefits should be paid as of right or only on need - this is not the same as "means testing", thus I see no reason why people who enjoy adequate occupational pensions which have attracted substantial tax reliefs should get State Pensions as well. In short a full dress enquiry much on Beveridge lines is needed. Initially this should be an internal enquiry but at some point we should have to go public. Here again I would strongly recommend that we press ahead with the necessary studies.

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4. So far as Mr Geoffrey Fox is concerned his objectives are the same as ours. But the specific propositions he puts forward are at much the same stage of development as we stood a good many years ago. Thus he wishes to substitute a simple non cumulative weekly tax for PAYE. He realises there would be problems with the existing allowances and reliefs but he brushes these aside by suggesting that existing reliefs should be abolished and replaced "by a modest rise in personal allowances for all". He does not discuss the effect this would have on the taxation of married couples. He proposes that mortgage interest relief should similarly be replaced by an increase in the personal allowances. Finally he proposes that the income tax and the NIC should be merged into a single tax.

5. When we ourselves started on this task in the 1960's it led step by step to the tax credit scheme. I believe that if you start on the basis of reforming the income tax, this is where you inevitably end up. You simply cannot justify the results on the basis of income tax principle. If therefore you want to simplify drastically, the only way you can do it is to abandon the income tax altogether - or abandon it for the great mass of the working population - introduce a new tax with a new basic philosophy and then defend the results that new tax produces by reference to its own philosophy. This is what we did when we replaced the Purchase Tax by the VAT. The Purchase Tax was in principle a very good tax: it was very cheap to administer. But by 1970 it had become a shambles: and with the excuse available of entry to the EEC we replaced it with the VAT - to the great benefit of the Revenue. But as I say, Mr Fox's objectives are the same as ours: his terminal point is not all that different from ours. But you cannot go from A to B along the route he proposes.

A.C.

LORD COCKFIELD
7 January 1981

cc Chief Secretary
Financial Secretary
Sir Douglas Wass
Ryrie
Sir A Rawlinson
Mr Middleton
Mr Bailey
Mr Dixon
Mr Kemp
Mr Battishill
Mr Unwin
Mr Ridley
Mr Cropper
Mr Rayner
Mr Buckley

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JK
HIG

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 January 1981

The Rt Hon James Prior MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1N 9NA

Dear Jim

EFFECTS OF INCREASED NATIONAL INSURANCE CONTRIBUTIONS ON PAY BARGAINING

Thank you for your letter of 15 December.

Of course we must stand firm on the decisions we have taken. As you know, the Social Security (Contributions) Bill has now gone to the Lords as introduced; none of the Opposition amendments in the Commons passed, and no amendments at all were put down by our own backbenchers. This is very satisfactory.

As for the future, although the examples you give are rather selective (and seem to me to run together this year's tax regime with next year's National Insurance contribution regime), I will naturally take what you say fully into account in preparing the next Budget. We should not, however, overestimate the room for manoeuvre. The economic situation dictates that there should be a fall in real personal incomes; and a major effect of the decisions we announced in November was to shift part of the burden of taxes and contributions from firms to employees. This is bound to show up in the pay packet in one way or another. Certainly it cannot be accepted as a valid reason for higher pay settlements.

I am sending copies of this letter to the other recipients of yours.

GEOFFREY HOWE

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