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SUBJECT.

NOTE FOR THE RECORD

✓ market set

The Prime Minister held a meeting at 1015 pm last evening with the Chancellor of the Exchequer, the Chancellor of the Duchy, the Chief Secretary, the Financial Secretary and the Chief Whip. Mr. Gow, Mr. Murdo Maclean and I were also present. The meeting had been called to discuss the Chancellor of the Exchequer's proposal to announce his derv recoupment measures the following day.

The Prime Minister said that, while she had approved the recoupment measures in principle, she believed an announcement the following day would have a serious effect on the outcome of the Warrington by-election. The Tory candidate was going to do badly enough anyway; the announcement of a 3p increase on a packet of cigarettes plus the other minor measures could well mean the difference between his winning or losing his deposit. If he were to lose his deposit, this would seriously damage his prospects of finding another seat to fight; she herself had a personal interest because of his position in her own constituency Party. But it would also be damaging for the Party as a whole, and it would also affect market confidence. She was surprised that Treasury Ministers and their political advisers had apparently failed to take into account the by-election in deciding the timing of the announcement. If it could not be announced after the by-election, surely it could have been announced either before the by-election was even called or at least several weeks earlier?

The Chancellor of the Exchequer said that, admittedly, he and his colleagues had not considered the timing of the announcement in relation to Warrington. But he had consulted the Chief Whip on whether the announcement should be made during the Committee stage of the Finance Bill. The Chief Whip's advice had been that the addition of a new clause should be avoided because it would prolong the Committee's sitting; and the announcement could not have been made at the time the tobacco clause was taken because at that time the final decision on the recoupment measures had not been reached. From the Treasury's point of view, the Report

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Stage of the Finance Bill could possibly be delayed until the week beginning 20 July, and the announcement could perhaps be made then - ie after the by-election which was on 16 July. But there were political risks in being seen to make the announcement so soon after the by-election, and he understood that the Parliamentary managers could find themselves in difficulty with other Bills.

In discussion the following points were made:

- i) the Chancellor of the Duchy suggested that it might be possible to avoid the tax increase on tobacco altogether.
- ii) The Chief Whip suggested that the non-tobacco measures - ie gaming and gambling - should be announced now and included in the Finance Bill, and that the increase in tobacco tax might be brought in by the regulator in the "overspill".
- iii) The Chancellor of the Duchy said that, if the tobacco increase had to be in the Finance Bill, it would be a mistake to postpone the Report Stage. The Opposition already had a fairly clear idea that the Report Stage was going to be taken in the week beginning 13 July. To postpone it now would look like "gerrymandering". Mr. Gow added that, if the Government postponed the announcement until after the by-election, there would be allegations at future by-elections that the Government would be announcing some "bad news" immediately afterwards.
- iv) The Chancellor of the Exchequer said that it would be very bad for confidence and the Government's credibility if he were to drop the recoupment measures. He therefore could not accept the Chancellor of the Duchy's suggestion. He was also strongly opposed to the idea of using the regulator in the autumn: that would look like a mini-budget.

- v) It was suggested that the recess could be put off by a week in order to allow the Report Stage to be taken in the week beginning 27 July: this would at least allow a week between Warrington and the announcement.

Summing up, the Prime Minister said she was still most unhappy, and she wished that the new measures had been announced during the Committee Stage. Before taking a final decision, the Chancellor of the Exchequer and the Chief Whip should sound out Lord Thorneycroft. Subject to that, she was reluctantly willing for an announcement to be made the following afternoon.

Postscript

The Chancellor and the Chief Whip saw Lord Thorneycroft this morning. Lord Thorneycroft was relatively relaxed about the announcement being made today. His view was that the Tory candidate at Warrington was likely to lose his deposit anyway. If anything, the extra 3p on tobacco would provide him with some excuse for his poor showing.

I passed this on to the Prime Minister, who confirmed that the announcement should go ahead.

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2 July 1981

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