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From the Private Secretary

6 November 1980

When the Chancellor and the Prime Minister met this morning, they discussed very briefly the proposal to increase an employee's national insurance contribution (Richard Tolkien's letter of 5 November refers). The Chancellor said that he was thinking in terms of an increase which would yield £1000 million in 1981-82 as one means of bridging the PSBR gap. The distributional effects of such an increase, if combined for example with an 11% increase in tax thresholds, would not be excessively regressive. If he were to go down this route, early primary legislation would be required. He would be considering the matter further in consultation with the Secretary of State for Social Services; but wanted to have the Prime Minister's initial reaction first.

The Prime Minister said that she was in principle in favour of the proposal.

J. P. LANKESTER

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WPM