

27 Feb 81

BUDGET SECRET

MACRO-ECONOMIC GROUP

1. Mrs Honey (81)  
2. Mrs Hogg  
93/21  
-D  
Copy No 10 of 22 copies

A meeting of the Macro-Economic Group was held on 25 February 1981 with the following present:-

Mr Unwin (in the chair)  
Mr Battishill  
Mr Bridgeman  
Mr Cassell  
Mr Christie  
Mr Dixon  
Mr Evans  
Mrs Hedley-Miller  
Mr Lavelle  
Mrs Gilmore  
Mrs Stamler  
Mr Folger  
Mr Bush

#### BUDGET DEVELOPMENTS

2. Mr Unwin reported that the Chancellor had decided that there was to be no revalorisation of Rooker-Wise thresholds. This, it was hoped, would enable a reduction in the forecast PSBR to below £11 billion. However, the latest figures coming from the forecasters suggested that, taking into account the NCB increase and the energy measures, the PSBR might still be over £11 billion even with no Rooker-Wise. In the light of the new figures the Chancellor was being asked for his views on what the published PSBR forecast should be. The Financial Secretary was of the view that it should be held to below £11 billion.

3. Mr Unwin said that the Chancellor had ruled out a change in the basic rate of income tax, despite the distributional problems raised by maintaining existing Rooker-Wise thresholds.

4. Mr Battishill said that the Rooker-Wise decision would mean that the capital taxes package would have to be locked at again. There would now be considerable opposition to measures that looked like hand-outs to the better-off. Certainly, the package would have to be presented carefully.

5. Mr Unwin said that the Budget might well be presented by outside commentators as massively deflationary (involving tax increases of about £4½ billion). Mr Evans wondered whether the

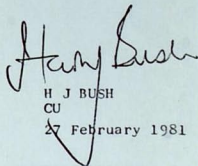
817

7/213

Government might not point to higher public expenditure figures to counter this impression. It was felt, however, that a better line would be to present the increase in taxation as necessary to pay for the increases in public expenditure.

6. Mr Unwin reported that at the Chancellor's meeting with the Bank, the Governor and his officials had been sceptical of the MTFs and of the changes in monetary techniques (abolition of RAR and MLR) the Chancellor proposed to announce in the Budget speech. There were to be further discussions. Meanwhile, the bank levy was now to go ahead. The outstanding decision was that on the level of MLR, which might not be taken until well into next week.

7. The settlement with the miners raised the question<sup>of</sup> whether increased NCB expenditure would be accommodated by cutting other items of expenditure or whether expenditure totals would be raised.

  
H J BUSH  
CU  
27 February 1981