

SECRET



Prime Minister

✓ A. Waller #1

The Chancellor has not yet secured his colleagues' agreement to this proposal and is minuting you

Treasury Chambers, Parliament Street, SWIP 3AG
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Simply to keep you in touch. Unless, therefore,

12 November 1981 you think this on the wrong track you need only note at this stage.

MCS 12/11

PRIME MINISTER

ms.

I mentioned to you on Tuesday the issue of an increase in the National Insurance Contribution (NIC). This minute describes how matters now stand. The NIC is of course the immediate responsibility of Norman Fowler. I am still discussing with him what should be done, and I hope that we can put proposals to you more formally within a few days.

2. The starting point is that the Government Actuary's report will show that a substantial increase is necessary in the NIC to balance the National Insurance Fund. An increase will also be needed in the allocation to the Redundancy Fund to avoid a growing deficit in that Fund. We therefore need to take some action, and we have to decide the best form for it to take.

3. I believe we must keep in mind the two principles mentioned in the last paragraph of my minute of 27 ~~October~~. First, we need to secure maximum flexibility on the PSBR. The prospects for public expenditure next year are bad. Everyone will want to see income tax allowances at least raised in line with inflation next year. We do not want to add to inflationary pressures by further real increases in taxes on spending. It therefore makes sense to look for a substantial rise in NIC to provide room for manoeuvre on the PSBR. Secondly, any additional burden we impose on industry should be as small as possible. Private sector employers are likely to pay an additional £550 million next year (a 5 per cent increase on this year) in NIC and NIS, without any change at all in their

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rates or in the earnings limits, simply because of the increase in earnings. We are under pressure to help employers by reducing the rate of NIS but it is at present very uncertain that we shall be able to do so. It is therefore desirable for the increase in the NIC to fall as far as possible on employees' contributions.

4. While my consultations with Norman Fowler are not yet complete, my present view is that an increase in the employees' rate of about 1 per cent, and no change in the employers' rate, would be right. The increase would be justified by reference to the prospective deficits in the National Insurance and Redundancy Funds. The rise in weekly payments next year by the employee on average earnings would be about £1.60. At the same time we could make a small increase in the Upper Earnings Limit from its present £200. If it rose to £210 (compared with the £220 possible within the legislation), the additional burden falling on private sector employers next year through the NIC and NIS would be about £70million. The improvement to next year's PSBR resulting from such a package would be about £400-£500 million compared with our forecast.

5. In my minute of 27 October I mentioned that primary legislation, which would need to be passed by the end of January, would probably be necessary. Any increase above 0.25 per cent in either employees' or employers' contributions would require such legislation. So I shall press ahead with my talks with Norman Fowler, and bring in Patrick Jenkin and Norman Tebbit as soon as possible, so that we are in a position soon to produce firm proposals, and start consultations with the business managers.

6. A copy of this minute goes to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G.H.' with a flourish.

(G.H.)

12 November 1981



11/21/51

...of the increase in the earnings...
...the employer's...
...the rate of...
...the increase in...
...as far as possible on...
...employees' contributions.

...with my consultation with Norman Fowler...
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...to the progressive deficits in the National Insurance and...
...Redundancy Funds. The rise in weekly payments next year by...
...the employee on average earnings would be about £1.50. At...
...the same time we could make a small increase in the upper...
...earnings limit from the present £200. If it rose to £250...
...compared with the £200 provided within the legislation, the...
...additional burden falling on private sector employers next year...
...through the NIS and NIS would be about £10 million. The...
...improvement to next year's NIS provided from such a package...
...would be about £400-500 million compared with our forecast.

...In my minute of 27 October I mentioned that...
...legislation, which would need to be passed by the end of...
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...in either employees' or employers' contributions would require...
...each legislation. So I shall press ahead with my talks with...
...Norman Fowler, and bring in further talks and Norman Fowler...
...as soon as possible so that we are in a position soon to...
...produce the proposals, and start consultations with the...
...business managers.

A copy of this minute sent to Sir Robert Armstrong.

[Handwritten signature]