



CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
Mr Cropper

I refer to Peter Cropper's note of June 13.

2. I think he is right that we are - perhaps - dangerously moderate in our counter-inflation policy. The preferred speedy action that can be taken on the PSBR is an increase in direct tax (as opposed to an increase in indirect tax or in public sector charges). I would not be averse to such a move.

3. I think his proposals on public sector pay are unwise and probably inequitable. I would prefer the more Fabian route of cash limits and realistic comparability as a means of reducing the pay component of public expenditure.

W J B

JOHN BIFFEN
16 June 1980