



10 DOWNING STREET

From the Private Secretary

21 October, 1982

The Prime Minister and the Chancellor have had several conversations about, inter alia, the issues raised in the Chancellor's minutes to the Prime Minister of 19 October on economic assumptions and the 1982/83 borrowing requirement.

The Prime Minister broadly endorses the Chancellor's approach on both matters. She agrees that, on the measures designed to correct a PSBR undershoot for 1982-83, the best course would be to make a number of announcements in the debates following the Queen's Speech, and that this would be preferable to gathering up all these measures into a single announcement. Mrs. Thatcher is content with the measures listed in paragraphs 2 and 4 of the Chancellor's minute, and in addition has suggested that the Secretary of State for Industry might be asked whether he wished to put forward candidates for addition to the list, for example further measures like the Small Engineering Firms Investment Scheme.

The Prime Minister is content with the economic assumptions listed in paragraph 2 of the Chancellor's minute on this subject.

In a discussion about the national insurance issues on which decisions will soon be required, the Prime Minister suggested that the Chancellor explore the possibility of reducing the national insurance surcharge to  $1\frac{1}{2}$  per cent, and at the same time increasing national insurance contributions upon both employees and employers by 0.25 per cent (with an estimated aggregate PSBR cost of around £900 million) as an alternative to the proposal to consolidate the national insurance surcharge at 2 per cent, together with increases in the national insurance contribution of 0.25 per cent on employees and nil on employers (with an estimated aggregated PSBR cost of £850 million). The Chancellor said that he would be discussing these possibilities

/with

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Completed  
file SW<sup>1</sup>  
cc Mr Walters  
cc



with the Secretaries of State for Industry and Health and Social Services, and he would also be considering what proposal to make about the upper earnings limit and whether it should be increased to £245 or to some lesser figure. The Prime Minister, as you know, remains concerned to preserve as much room as possible in the Budget for income tax threshold increases.

M. C. SCHOLAR

John Kerr, Esq.,  
H.M. Treasury

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① Mr Butler <sup>GB</sup> - to see

② Note for file

er MTR

I asked the Chancellor's office to restrict as far as possible the circle of those who see my letter to JO Kerr of 21/10 about the 1982/83 borrowing requirement.

They will do so (they haven't yet adopted Budget - Secret) : it is being very tightly restricted anyhow.

MCS 25/10



Personal

Budget h 10  
21 Oct 82 Econ 107

Michael Schola

I do not see how we can avoid the minimum of consolidation of the NIS at 2% decrease - and this would lead to a cost of £350m.

But suppose we did a little more i.e. reduce to 1½%, and at the same time increase both employers and employees contribution to NIC by 0.25%. - the cost of the joint NIS (B) and NIC (C) would be £900.

If you opt for NIS (A) and NIC (B) the cost would be 350 + 500 = £850.

There is nothing in it - but you could claim another reduction in NIS - politically quite attractive

AR

VEL 200 245 ~ 235

do 0.25 employees

1 1/2 700

0.25 200  
each side

up w 245 VEL?

Assum w/ PJ + NF

Hanges to DOT

Rawhan w DOT



PSBR 1983-84

Personal

Michael

With John Kew's compliments,

Jim Pether

20.X.82

MCS Say this should go  
on the 1983 Budget file.

*J*



NIS and NIC

1983-84

1. The forecast assumes 2½% NIS and 0.4% on each of employers' and employees' NICs and an Upper Earnings Limit of £235 per week.

2. The following table shows three options for NIS and NIC. The figures are broad brush at this stage: the Government Actuary's figures are not yet available; they are based on provisional assumptions; the PSBR costs will be lower than shown because of second round effects.

	NIS decreases	NIC increases	£ million Total cost
A Consolidate at 2%	<u>350</u>	Employees : nil Employers : nil UEL to £235	850 1200
B Reduce to 1½%	700	Employees : 0.25 Employers : nil UEL to £245	<u>500</u> 1200
C Reduce to 1%	1050	Employees : 0.25 Employers : 0.25 UEL to £245	200 1250

(1) NIS costs are for the private sector only. The changes would apply to the public sector but would be clawed back before publication of cash limits, EFLs and the RSG

(2) The NIS changes would require legislation before Christmas. The NIC changes would not require any legislation.

1982-83

3. If Option B or C were adopted, it might be possible, in a rough and ready way, to backdate the reduction in NIS over and above consolidation as if it had effect throughout 1982-83, so as to help reduce the expected PSBR shortfall in that year. Option B might be made to provide some £350 million for this purpose, and Option C £700 million. But if consolidation only is adopted (Option A) no help with current PSBR undershoot by this route would be appropriate since it would lead to an apparent increase in the NIS rate in 1983-84.