

CF/for Chancellor's
mtg Tues.
PRIME MINISTER

SECRET

ECON PO
PA Prime Minister (2)
MS 15/12
Worth mention at your next
weekly meeting with the Chancellor.
MS 9/12 at a lunch

7A

TAX THRESHOLDS AND THE BUDGET

1. The Chancellor is coming under considerable pressure to "do something for industry". When I met the CBI last Monday, they urged me to do the usual things:
 - elimination of the NIS (even a negative NIS!);
 - yet more reductions in the price of electricity, gas etc;
 - an expansion of public investment, particularly railway electrification, and civil works.

2. I pointed out that the government had already brought about many of the conditions the CBI had thought to be of crucial importance:
 - reduction of inflation;
 - reduction of interest rates;
 - more "realistic" value for sterling;
 - lower NIS and fuel prices.

Public investment, provided it was worthwhile had also been encouraged.

3. The CBI are particularly disparaging about the need to increase personal tax thresholds. It was perfectly clear that McDougal, the Chief Economist, had not even heard of, let alone read, Hermione Parker's work. The CBI view is that what is needed is a reduction in benefits, not a reduction in tax thresholds.

4. In view of all the pressures being brought on the Chancellor, not only by the CBI, but also by the Department of Industry, Trade etc, I think it would be a good idea to reiterate that raising the tax thresholds is the first priority, not the last, in the Budget process.

9 December 1982

SECRET

ALAN WALTERS