

BUDGET SECRET

I had better see the Chancellor this morning (Wed). Would you also ask

PRIME MINISTER his office to take into account the effect on the pay-slip of the new system of mortgage which

1. You looked quickly at the Chancellor's and Alan's notes (attached) earlier this evening. They are worth studying carefully values attached now, because decisions are needed very soon.

The PSBR: £8b or £8½b to let then effect on pay of e.g. let us look at the in June is a married man on 1½ av.

2. I believe Alan makes a strong case for sticking to an £8 billion PSBR. If, as he believes, we have an average oil price in 1983-84 of \$26 a barrel £8 billion becomes up to £8.9 billion: that would be just tolerable against the estimated PSBR we had for 1982-83 of £9½ billion.

3. The argument is even stronger if we compare estimate with outturn - as one should not do, but as some will do. The 1982-83 outturn will be shown on Budget day as £8 billion. In reality it may be lower. Is there not merit in publishing a 1983-84 PSBR lower than this figure: or, at any rate, no higher?

4. Doing the sums in GDP percentages points to the same conclusion. An outturn of £8 billion this year will be shown as 3% of GDP. An estimate of £8 billion for 1983-84 will be shown as 2.75% of GDP. We would (just) keep up the downward pressure.

Thresholds up from 8½% to 10%; or a NIS reduction?

5. If you accept the foregoing you then have a straight choice between pushing the thresholds up by an additional 1½% above indexation; or dropping a further ½% from NIS.

6. What does each of these options buy you?

7. Reducing NIS

(a) Buys support for the Budget from the industry lobby, the CBI, etc. Useful.

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- (b) Reduces the risk of the Budget being described as lopsidedly directed to persons and therefore electioneering (although, with an £8 billion PSBR this would be a scarcely credible line of attack anyway).
- (c) Is, arguably, unnecessary since industry is already enjoying the two reductions announced in the Autumn, one of which comes into effect in April; as well as the benefits of a lower exchange rate and lower interest rates. There must be some risk, too, of the NIS reduction leaking into pay.

8. 10% rather than 8½% threshold increases

- (a) Will help to achieve many important economic objectives - e.g. reducing the why work syndrome?, taxing fewer people below the SB threshold, reducing the higher taxpayer's bill, and so on. The more we can increase our absurdly low thresholds the better.
- (b) On the other hand, indexation + 10% buys little more immunity from criticism than 8½% would. At 10% there will still be people paying more tax + NIC in 1983-4 than they did in 1982-83 (whether on the static or the dynamic comparison). At 10% all those with less than twice average earnings will be bearing a heavier burden of tax + NIC than they did in April 1979.
- (c) On both 8½% and 10% we can say that
- (i) average rates of tax + NIC will be lower than, or equal to, those in 1982-83 for all people who are contracted in;

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