

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are due to see the Chancellor tomorrow at 1745.
There are two subjects he is likely to raise.

Handling of Public Expenditure Survey: Timing of Autumn Statement

I attach a copy of the schedule of meetings for MISC 99. There has been one change - the Foreign Secretary is meeting the Chief Secretary and the Lord President in a trilateral rather than in a full meeting of the group. The Cabinet Office are now scheduling 10 November as the date of the Cabinet meeting to take the next discussion of public expenditure. The last bilateral is defence on 31 October, leaving time for the Lord President to write up his report and for possible intervention by yourself to resolve outstanding issues.

There are difficulties with 10 November. Sir Geoffrey Howe will be attending the Special Council in Athens. Assuming he had settled by then, he would have been an ally in the discussion. Mr. Jopling is also supposed to be there though he could be told to attend the Cabinet if he wishes to defend his programme. The Chancellor was also invited but is prepared to send a deputy in order to attend Cabinet.

The main difficulty is Mr. Walker's trip to China. He leaves on 2 November and is scheduled to return on 11 November. One possibility is that he could have a meeting with you after his MISC 99 appearance on 27 October but before his departure. Alternatively, if he has still not settled he could be asked to come back a day early.

The main issue remains defence. MISC 99 is unlikely to settle this and you will need to consider whether to see Mr. Heseltine yourself or whether to allow him to go to the full Cabinet.

/National Insurance Contributions

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National Insurance Contributions

The issue is whether an increase should be announced in the Autumn Statement. Under existing legislation, an increase of a quarter per cent on both employees' and employers' contributions can be implemented. Combined with raising the thresholds this would yield £400 million.

The case for an increase is that the Autumn Statement is likely to show a negative fiscal adjustment, i.e. that taxes need to be raised in order to achieve the PSBR in 1984-5 which was set out in the Budget - £8 billion or 2½% of GDP.

The negative fiscal adjustment could be £1 billion or more, though this may be reduced as the forecast is refined. If NIC were raised it might be possible to show that no fiscal adjustment was needed at all.

The case against an NIC increase is that the National Insurance Fund is currently in surplus; it would take some of the gloss off the Autumn Statement where the Government expects to be able to present a very satisfactory outcome on public expenditure; and it would reverse the trend of reducing employers' NIC/NIS costs. To raise only the employees' contributions would yield £200 million which might not be enough to eliminate the negative fiscal adjustment.

W The Chancellor has yet to make up his mind on this and will want to explore the pros and cons with you.

AT