

PRIME MINISTER

THE TAX AND PRICE INDEX

The Chancellor's minute to you setting out his proposals for the new index is at Flag A. Attached to it are two graphs which I commissioned showing the movements in the RPI and TPI from the beginning of 1977 to the third quarter of 1980. Also attached are the Chancellor's earlier minute of 25 July (Flag B) and comments from Sir Keith Joseph (Flag C) and Mr. Nott (Flag D).

The Publication of the new index is likely to be greeted with a good deal of scepticism. The expectations which have been aroused would make it very difficult not to go ahead now, but you ought to see - as a sample of the reactions which will be forthcoming from Opposition sources - the New Society article at Flag E. It will be argued that the new index does not represent "the standard of living" in any sense at all and that because it is a composite index it cannot reasonably be taken as an indication of the earnings rise which would compensate for tax and price changes over the past 12 months for any particular group of workers - so that the unions will claim that their circumstances are different from the movement in the TPI.

The Treasury are still working out the figures for the period before 1977 and there may be some peculiarities in them when they become available. There are certainly some peculiarities in the behaviour in 1979. You will see that the TPI was higher than the RPI from April to June because the 1979 Budget tax reductions are not included in them.

All of this, and the more general worry expressed by Sir Keith Joseph and Mr. Nott about the potential blunting of the Government's general message on pay, means that the presentation of the new index will have to be careful and well thought out. The Treasury are already working on it but we have not seen the result of that work yet.

/Are you

Are you content, given all the reservations I have listed above, that publication should go ahead as the Chancellor suggests? And shall we tell the Treasury that they ought to be in close consultation with the Paymaster General and the No. 10 Press Office about presentation?

MJS

Please don't publish until
presentation has been worked out.

10 August 1979

Further, I should like to see
more previous issues before a final
decision is made

am.

Monday evening. Meet with Nigel
Laws - that GP should go
ahead on Friday. Special
attention to be given to presentation
re.

PERCENTAGE CHANGE IN TPI AND RPI WHERE TPI IS
CALCULATED FOR MARRIED COUPLE, HUSBAND ONLY EARNING,
ON AVERAGE EARNINGS

	<u>TPI</u>	<u>RPI</u>
January 1974 - January 1977	87%	72%
January 1977 - January 1979	11%	20%
January 1974 - January 1979	107%	107%

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