

PRIME MINISTER

Meeting with the Chancellor

The meeting is principally to discuss the Chancellor's thinking on the Budget. He is likely to begin by going over the prospect that is emerging from the forecast (I gather it is not a particularly favourable one). You then go on to measures directed at increasing employment such as recasting national insurance contributions and then what he has in mind for capital taxes. On the reform of personal taxation he is stymied this year as he does not have enough revenue to give away to ease the transition to any new system. He may suggest that he should trail the issue of a Green Paper. This could cover questions like non-cumulation of PAYE and transferable allowances.

He is likely to raise EMF and suggest this be studied seriously. One possibility would be a seminar to examine what is involved.

Other issues are:

- (i) Staff appointments at the Board of Inland Revenue - see enclosed minute;
- (ii) the replacement for Michael Portillo as Special Adviser at the Treasury;
- (iii) closer contact with the Governor;
- (iv) closer contact with Treasury officials.

On (iii) we have set up a social engagement to meet the Governor. You could propose to the Chancellor that you should see the Governor, perhaps once every six weeks or two months, on his own. These would not be decision-taking meetings and the Treasury would be kept informed of what went on. You could seek the Chancellor's agreement to this.

On (iv) it was apparent from the meeting last Monday that Sir Peter Middleton was rather out of touch with your thinking. One possibility would be to arrange a seminar with him, Terry Burns, Alan Bailey and Geoff Littler just before the Economic Cabinet in February.

AT

ANDREW TURNBULL

1 February, 1985