

1. MR NORGROVE
2. PRIME MINISTER

CABINET - PRE-BUDGET DISCUSSION

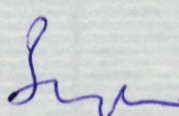
This occasion tomorrow assumes considerable political significance in view of:

- i. the increased importance of Cabinet Government after the Westland affair;
- ii. the close scrutiny being attached to all Government discussions/decisions for confirmation of the media's currently fashionable view that you have lost power;
- iii. the argument between the tax cutters and consolidators; between the standard rate cutters and the higher threshold men; and the risk takers versus the prudent lobby;
- iv. the report in the FT today (see Annex I).

David Norgrove is asking the Chancellor to provide a speaking note for use after Cabinet.

I would, however, like to be able to deploy any guidance at the earliest possible opportunity after the pre-Budget discussion is over. It is very important you colour the original reporting and force those Ministers who would wish to put their own oar in to brief against the background of first impressions created by official briefing.

I would be grateful for a very fast line out of Cabinet once the economic discussion is complete.


BERNARD INGHAM
12 February 1986

FINANCIAL TIMES: WEDNESDAY, FEBRUARY 12, 1986

Budget caution may be challenged

BY PETER RIDDELL, POLITICAL EDITOR

TREASURY CAUTION about the scope for fiscal relaxation in the March 18 Budget is likely to be challenged at tomorrow's Cabinet discussion of the economic outlook by a senior minister, who believes there is an extra £1bn to £2bn of leeway.

The minister has been circulating figures claiming that even on cautious assumptions there is £2bn to £2.5bn available in fiscal adjustment (either tax cuts or additional public spending).

Moreover, the leeway could be £3bn to £3.5bn if allowance is made for slightly more buoyant non-oil tax revenue as a result of higher than expected growth in earnings and prices over the past year. This factor, the minister says, has not been sufficiently stressed in Treasury papers.

These figures are based on forecasts showing that, on current policy, borrowing in 1986-87 would be between £5bn and £7bn, depending on the oil

price, and on an assumed post-budget level of between £7.5bn and £9bn.

The minister will argue, along with a number of colleagues in the Cabinet mainstream, some of whom are not as optimistic as him, in favour of a mixture of increases in income tax thresholds and additional public investment.

This contrasts with the Treasury's greater than usual caution in view of uncertainty about oil prices and tax revenue from the North Sea. While playing down expectations, Mr Nigel Lawson the Chancellor, has apparently indicated that he wants tax cuts of at least £1bn. Decisions will be taken nearer the date and will depend in part on the extent to which public borrowing is allowed to rise above the current target of £7.5bn for 1986-87, and on whether indirect taxes are raised.

Some commentators have suggested that there may be little room, however, for any significant fiscal relaxation.

The pre budget Cabinet discussions have in recent years, been low-key. But in the new post-Westland mood of collective discussion, some ministers want at least to air their views while recognising the decisions lie solely with the Chancellor, especially given this year's uncertainties.

Tomorrow's meeting is regarded by several ministers as merely a forerunner of crucial discussions in the summer about public spending plans which will shape the Government's strategy in the run up to the general election.

A growing number of ministers believe that any available money would have the greatest political effect if it were used to ease some of the pressure on local authorities, especially in the shire counties, and to boost spending on education and training and on selected public capital investment rather than on tax cuts. These ministers argue that any tax cuts should, until the new

social security system comes in, in 1988, be in the form of higher thresholds rather than a lower basic rate.

However, other senior ministers, including a number of Mrs Thatcher's close allies, argue that the priority should remain a lower basic or standard rate of income tax to boost incentives.

In this debate Lord Young, the Employment Secretary, Mr John Biffen the leader of the Commons, and Mr George Younger, the Defence Secretary, as well as a number of younger Cabinet ministers, favour higher thresholds.

In the Commons yesterday, Tory MPs rallied behind the Prime Minister following the weekend clashes between senior ministers. After being greeted with loud mock cheers and a waving of order papers by Labour MPs, Mrs Thatcher gave an exaggerated bow. She said she had seen off three Labour leaders and hoped to see off another.



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12 February 1986

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Dear David,

The Chancellor has been giving some thought to what, if anything, should be said to the Press about tomorrow's Cabinet discussion of the economy. He suggests that the No.10 Press Office should say no more and no less than at this time last year - viz

"The Cabinet today had the usual discussion about the economy which takes place before each Budget. There was continuing support for the economic strategy."

If the Prime Minister agrees with this perhaps you would pass on the above form of words to Bernard Ingham?

Yours ever

Receved.

MRS R LOMAX
Principal Private Secretary



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