



ce Master

10 DOWNING STREET

From the Private Secretary

12 March 1985

At a meeting on 8 March, the Chancellor discussed with the Prime Minister the Budget proposals set out in his minute of 7 March. These were agreed subject to the following points.

The Prime Minister was concerned that the Budget might be interpreted as a retreat from the financial restraint which the Government had exercised hitherto. The increase of £2½ billion in the public expenditure total would not be accompanied by any announcement of intention to bring the figures down again but would be accompanied by cuts in taxation. City opinion was unprepared for this. The Chancellor explained that maintaining the existing figures would not be credible. The target for borrowing would, however, be firmly adhered to. It was agreed that the expenditure increase would have to be explained very carefully in the Budget speech and the Chancellor undertook to pay special attention to the drafting of this passage.

The Prime Minister was concerned that the restructuring of the National Insurance contributions gave away too much to employers. The Chancellor said that a net reduction was necessary in aggregate in order to ensure that the losses of particular groups of employers, e.g. in manufacturing, were not excessive. Nevertheless, he agreed to look again at this proposal.

The Chancellor set out the proposals he wished to include in the Green Paper on Personal Taxation. The system of transferable personal allowances would channel such tax cuts as were possible in the next Parliament towards the two groups that needed them most. The gainers would be one earner families where poverty was most acute and single persons, most of whom were under 25, where unemployment was highest. The Prime Minister expressed doubts about the political attractiveness of this proposal. She thought it would be unpopular, particularly among working wives in industrial areas such as the Midlands and the North West

where the Government had built up significant support. The Prime Minister also argued for the reintroduction of child tax allowances which would open the way for a reduction in child benefit. The discussion was inconclusive and the Chancellor agreed to show the Prime Minister a synopsis of his Green Paper.

(Andrew Turnbull)

Mrs. Rachel Lomax,
HM Treasury.