

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

It may be useful to you as you fly home to have a short account of current preoccupations on the economic front.

My talks in Washington - about which I shall let you have a separate note - left me with the strong impression that the US recovery will be slow to come through. The international banking situation looks a little less dicey than it did when you left though Mexico still causes continuing concern. Domestically I hope we shall get another half point off base rates during the next week or so. The August output figures were bad but the inflation outlook continues to improve: we now expect to be down to 6½% by the turn of the year. (In order to maximise the pay round effect I made something of a splash of this in a speech in New York last week). We are to discuss in Cabinet on Thursday the pay factor in next year's cash limits: the choice is I think between 3% and 4%. Leon Brittan is in the thick of public expenditure survey bilateral discussions: the greatest problem is as usual likely to be defence but the improved inflation prospect may make his overall task rather easier than it was last year.

Two pieces of press speculation are proving hard to kill. First, as you feared, the CPRS' ideas on changes in the public expenditure pattern in the long term have leaked and attracted a good deal of publicity which has ignored the long term nature of the exercise and has concentrated on contentious possible prescriptions rather than the diagnosis on which all should agree. Secondly, Fleet Street buzzes with rumours - not of Treasury origin! - that I plan to devote three or four billion pounds in the budget to raising personal tax thresholds. Some variants of the story have me making an announcement to this effect in November and some papers link the two stories suggesting that massive tax cuts will be paid for by an onslaught on the NHS. All this is irritating and efforts to kill it will be stepped up.

It is of course far too soon to judge what room we shall have at budget time for tax reductions or the form such reductions might take. Action on the personal tax thresholds is certainly / desirable



- 2 -

desirable but we need also to consider - as this year - more direct ways of assisting industry. The CBI are already planning their campaign and I am in touch with Terry Beckett and will have an early private meeting with him.

Within the next fortnight I shall have the Autumn forecast which will give the first broad indication of the scope for further action. But we shall not by November be in a position to make any substantial commitments for a March budget. What we will have to do in November - or early December - is as usual to publish the outline public expenditure plans and proposed national insurance changes for the year ahead and the forecast required under the Industry Act. I favour adding to these announcements some presentationally attractive boosters for enterprise and I am already in touch with Patrick Jenkin about this. If our improved monitoring of this year's PSBR were to reveal the likelihood of an under-shot it might be possible to add more substantive measures to take immediate effect - e.g. the abolition of deferment on regional development grant and there may be more directly employment-related measures which we could take: I look forward to discussing the CPRS and Minford ideas with you. But we cannot yet say how much room for adjustment we shall have in the late Autumn still less at budget time and must beware e.g. in what we say at Brighton next week of raising expectations unduly. What matters most if we are to sustain the downward movement of interest rates is of course that our determination to hold borrowing down should be seen to be undiminished.

Incidentally, we have yet to formally agree on the date of the next budget though I have mentioned to you that I am at present planning on 15 March. This is about a week later than in the past two years but still earlier than has often been the practice. 8 March would also be possible though I would prefer the extra week: 22 March is ruled out by a European Council. No final decisions are needed until the New Year but it would be helpful if you could confirm that you are content with a planning date of 15 March.

28 September 1982

CHANCELLOR OF THE EXCHEQUER



cc. A.W.

PERSONAL AND CONFIDENTIAL



Delayed a  
braking to  
H Kapan  
28/9

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Prime Minister (2)

You have, I believe,

already seen this  
your progress report.

MCS 27/9

PRIME MINISTER

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2. My talks in Washington - about which I shall let you have a separate note - left me with the strong impression that the US recovery will beslow to come through. The international banking situation looks a little less dicey than it did when you left, though Mexico still causes continuing concern. Domestically, I hope we shall get another half point off base rates during the next week or so. The August output figures were bad, but the inflation outlook continues to improve: we now expect to be down to 6½ per cent by the turn of the year. (In order to maximise the pay round effects, I made something of a splash of this in a speech in New York last week.) We are to discuss in Cabinet on Thursday the pay factor in next year's cash limits: the choice is, I think, between 3 per cent and 4 per cent. Leon Brittan is in the thick of public expenditure survey bilateral discussions: the greatest problem is, as usual, likely to be defence, but the improved inflation prospect may make his overall task rather easier than it was last year.

3. Two pieces of press speculation are proving hard to kill. First, as you feared, the CPRS ideas on changes in the public expenditure pattern in the long term have leaked, and attracted a good deal of publicity, which has ignored the long-term nature of the exercise, and has concentrated on contentious possible prescriptions rather than the diagnosis on which all should agree. Secondly, Fleet Street buzzes with rumours - not of Treasury origin! - that I plan to devote £3 or £4 billion in the Budget to

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raising personal tax thresholds. Some variants of the story have me making an announcement to this effect in November. And some papers link the two stories, suggesting that massive tax cuts will be paid for by an onslaught on the NHS. All this is irritating, and efforts to kill it will be stepped up.

4. It is of course far too soon to judge what room we shall have at Budget-time for tax reductions, or the form such reductions might take. Action on the personal tax thresholds is certainly desirable, but we need also to consider - as this year - more direct ways of assisting industry. The CBI are already planning their campaign, and I am in touch with Terry Beckett, and will have an early private meeting with him.

5. Within the next fortnight, I shall have the autumn forecast, which will give the first broad indication of the scope for future action. But we shall not by November be in a position to make any substantial commitments for a March Budget. What we will have to do in November - or early December - is, as usual, to publish the outline public expenditure plans and proposed National Insurance changes for the year ahead, and the forecast required under the Industry Act. I favour adding to these announcements some presentationally attractive boosters for enterprise, and I am already in touch with Patrick Jenkin about this. If our improved monitoring of this year's PSBR were to reveal the likelihood of an undershoot, it might be possible to add more substantive measures to take immediate effect - e.g. the abolition of the deferment on regional development grants. And there may be more directly employment-related measures which we could take: I look forward to discussing the CPRS and Minford ideas with you. But we cannot yet say how much room for adjustment we shall have in the late autumn, still less at Budget-time, and must beware - e.g., in what we say at Brighton next week - of raising expectations unduly. What matters most, if we are to sustain the downward movement of interest rates, is



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(G.H.)

27 September 1982