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PRIME MINISTER

THE BUDGET

As is usual at this time, new work from the forecasters suggests that we shall have between £½ and £1 billion less to use for reductions in taxes than we thought last week. (The main elements in the change were revisions on the oil price and on tax receipts.) I expect there will be some more movements in the estimates before the Budget is finalised, but I doubt if they will be significant. All this shows the wisdom of planning for a low PSBR in the initial stages of Budget discussion.

I am afraid, however, that the central elements of the Budget strategy, in particular the raising of the thresholds by Rooker Wise plus at least 8½%, will come under additional pressure as the arithmetic becomes harder. In past years it has been treated as the residual legatee. In earlier discussions we took the view that this year it would be first not last on our list.

I think it would be wise to remind the Chancellor of your commitment to the increase in the thresholds. The question he may pose to you is would you then prefer that there be no half-a-per-cent reduction in NIS. I know your answer to this, but I believe there is in the Treasury still a tendency to regard NIS reductions as somehow superior to threshold increases. You may have to offset that bias.

You may also wish to enquire about the contingency plans if there is a fall in the price of oil to, say, $25 a barrel. Such a value does not appear as the central consideration of the Budget arithmetic - and perhaps rightly so. But I believe that contingency planning would be no bad thing.

ALAN WALTERS
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