SECRET

3

Prime Minister

MR. SCHOLAR

NATIONAL INSURANCE CONTRIBUTIONS

MLS 18/11

I feel I may have been a bit elliptical in my last memo to the Prime Minister dated 13 November on this subject. May I make my position clear?

I support the Chancellor's proposal to increase the National Insurance Contribution by 1% on "constitutional grounds". The rules of the Fund require it to be actuarily sound. The 1% increase is required for this purpose.

I also accept, but am less convinced by, the argument that there must be considerable room for manoeuvre before the Budget. I believe that the National Insurance Contribution is not a good tax because it does have probably a greater effect on employment than most other alternative taxes.

My memorandum was meant to warn against using what I believe is the Chancellor's false analysis in order to "help industry" at the expense of the personal sector. For example, it might be argued that a decrease in the National Insurance Surcharge, urged on us by the CBI, and a corresponding increase in the National Insurance Contribution would transfer money from the personal to the business sector. My analysis shows that such a proposition is wrong. We would be imposing these administrative burdens to no purpose.

18 November 1981

ALAN WALTERS

SECRET