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PRIME MINISTER

I have seen a copy of the Chancellor of the Exchequer's note of 4 November about the timetable for announcing decisions on public expenditure and other matters.

2. The Chancellor will probably be reluctant to contemplate anything that could be described as an Autumn Budget. But the case for a comprehensive announcement of decisions, not just the cash limits and the Rate Support Grant (which have to be announced in November anyway) but also on public expenditure reductions and on tax proposals, seems to me to become increasingly strong.
3. It is widely believed outside that the Cabinet is looking for reductions in public expenditure of the order of £2,000 million. What is actually achieved is likely to become as widely known as the objective. The further achievement falls short of the objective, the greater the damage to the credibility of the Government's strategy, the greater the fear of a very high PSBR next year, the more damage will be done to prospects and hopes of a fall in interest rates and of the exchange rate. Indeed, expectations could force both interest rates and the exchange rate still further up.
4. These effects could be much reduced, credibility maintained, and the prospect of reduced interest rates held out, if the Chancellor could demonstrate that by a combination of agreed cuts in public expenditure and specific changes in taxation he would be able to keep the PSBR next year down to the sort of level he has in mind (which seems to be somewhere about £9 to £9½ billion). That would also provide a framework for whatever monetary decisions - either on rates or on techniques - he wanted to announce.
5. You will remember that in 1968 Roy Jenkins announced public expenditure cuts in January but postponed his tax announcements until Budget time. He came to regret the postponement, because the expenditure decisions were not credible without the tax decisions, and there was a very difficult three month period between the two.

6. There is in any case something to be said, in terms of impact upon industry and markets, for getting all the agony out and over in one fell swoop, rather than paying it out in instalments. People then stop expecting more agony, and begin to look forward to the possibility of better things; and industry may then be more disposed to hold on to markets and accept lack of profitability for a little longer, because they see the prospect of improvement more clearly.

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