

Prime Minister

This will be taken in
Cabinet on Thursday

SJP. Duty Clerk

11 TPL

19.10.79



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

PRIME MINISTERWHITE PAPER ON PUBLIC EXPENDITURE 1980-81

..... I attach a draft of this White Paper, which John Biffen will be circulating to Cabinet in printed form early next week.

2. There is one immediate issue. The direct effect of the decisions taken at E Committee on electricity and gas pricing was to add some £400 million to the public expenditure totals for 1980-81. After allowing for other changes, we have had to add £350 million to the 1980-81 totals in the White Paper which causes them to show a small rise over 1979-80, instead of a decline as we had both hoped. The relevant figures are in line 13 of table 1 of the White Paper.

3. The figures include the price increases from April which were agreed at E Committee. But a decision to start the phased removal of under-pricing before the end of 1980-81, and preferably in October after the RPI rise will have passed its peak, would make a big difference to the figures. The provisional effects of various illustrative options are as follows:-

Effects of October Price Increases

	Savings £ million at 1979 Survey prices	Direct RPI Effect %
Electricity and Domestic Gas 5%	125	+0.2
Electricity, 5%, Gas 10%	150	+0.3
Electricity and Gas 10%	250	+0.4

/4. Removing



4. Removing under-pricing is of course also very important for the later years. Compared with raising prices no more than the increase in the RPI, the amounts at stake in David Howell's proposals rise to £700-800 million a year by 1983-84. He and John Biffen will be reporting on the options for phasing out under-pricing and their effects as soon as they can get figures good enough to base decisions on.

5. But the urgent aspect is 1980-81. I hope that we could aim to take a decision on one of the options in paragraph 3 by 26th October so that we can reflect it in the 1980-81 White Paper and in the cash limits to be published for the industries next month.

6. I am copying this minute to David Howell, John Biffen and Sir John Hunt.

G.H.

(G.H.)

19 October, 1979

[Approved by the Chancellor of the Exchequer
and signed in his absence]

19 OCT 1979



COMMISSIONER

THE GOVERNMENT'S EXPENDITURE PLANS 1980-81

1. Public expenditure is at the heart of Britain's present economic difficulties.

2. For a long time now the performance of the British economy has been deteriorating. Over the past five years output has grown less than half as fast as it did over the previous 20 years, and little over a third as fast as in other industrialised countries. Without the contribution of North Sea oil there would have been scarcely any growth in output or productivity at all. Inflation has been at record levels, and has acquired strong momentum.

3. Over the years public spending has been increased on assumptions about economic growth which have not been achieved. The inevitable result has been a growing burden of taxes and borrowing.

- Increases in taxes have made inflationary pressures worse and reduced incentives.
- High Government borrowing has fuelled inflation ~~by making proper control of the money supply more difficult, and~~ has denied the wealth-creating sectors some of the ~~external~~ finance they need for expansion, *and has led to high interest rates.*
- High inflation has increased the risks and uncertainty faced by both employer and employee and gravely damaged investment, production and jobs.

If this continued, our economy would be threatened with endemic inflation and economic decline.

4. In deciding their spending plans for 1980-81 the Government have had in mind three central objectives:

- First, to bring down the rate of inflation. ~~To achieve this it is essential to contain and reduce progressively the growth of the money supply.~~ This means that Government borrowing must ~~in turn~~ be firmly controlled. It is a main determinant of monetary growth.
 - Second, to restore incentives. This means ^{that} the Government must hold down and if possible reduce taxes, particularly on incomes.
 - Third, to plan for spending which is not only compatible with the necessary objectives for taxation and borrowing, but is also based on a realistic assessment of the prospects for economic growth.
5. The immediate prospects for output are poor both in this country and ⁱⁿ the rest of the world. The growth of world trade is low ~~and likely to remain so for some time.~~ The recent increase in the oil price has made matters worse.
6. The Government's economic strategy must be to stabilise public spending for the time being. Unless this is done there can be no possibility of lower taxes, lower borrowing or lower interest rates.
7. For 1980-81 the previous Government's plans involved a level of expenditure which could not be sustained. Even leaving out of account the likely cost of "catching-up" pay settlements in the public services, their published plans were £4 billion higher than the spending now planned for 1979-80(1). To pay for this increase would have required sharply higher taxes or borrowing on a scale which, if possible at all, would mean higher interest rates or an excessive growth of the money supply and more inflation. Any of these would damage our growth prospects still further - and, in so doing, the prospects for higher spending on our public services in future.
8. To limit severely the resources devoted to our public services

(1) At 1979 Survey prices.

for the time being is not to deny that many of them need improvement. It is rather to recognise ^{that - also} (the way in which that improvement can be secured. ~~The only way~~ is to earn the money and resources ~~required first~~, by higher output. ^{But -} Higher output can only come from ~~better working of our market economy~~, lower taxes, lower interest rates and less Government borrowing ^{and better use of investment}. ~~To plan more public expenditure before the required output is available to support it, would ensure that in the event that growth of output does not take place. Higher public expenditure cannot any longer be allowed to precede, and thus prevent, growth in the private sector.~~

9. Total expenditure now planned for 1980-81 is shown in Table 1. The Government have provided for growth in some programmes, particularly defence, law and order, and social security (reflecting among other things this year's record pensions uprating). Within the total, reductions have therefore been made in other services. The plans for later years will be published in a later White Paper.

10. The figures in Table 1 for 1979-80 include the public expenditure reductions announced in the Budget. The outturn is still uncertain, particularly on local authority expenditure which the Government do not directly control. The present estimate is that the planning total of public expenditure ^{will be about} the same as in 1978-79. ^{after shortfall}

Table 1 - Public Expenditure 1978-79
to 1980-81

[at end]

11. Figures for the main programmes are set out in Table 2. Brief comments on the individual programmes follow in paragraphs 16 to 42. Where appropriate, the Ministers concerned will be announcing further details.

Table 2 - Total Public Expenditure
by Programme

[at end]

Local authorities

12. The broad breakdown of local authority current expenditure between services, incorporated in Table 2, is consistent with the pattern of individual programmes discussed in paragraphs 16 to 42, which reflect the Government's view of national priorities between and within services. However, the figures are necessarily tentative since it is for individual local authorities to decide the eventual distribution in the light of local needs and conditions. The breakdown which has been assumed is set out in Table 3 below. The planned levels for capital expenditure in 1980-81 are some 8 per cent lower than in 1978-79, or 9 per cent less than the outturn at present estimated for the current year.

TABLE 3 - Public Expenditure by local authorities in Great Britain
[at end]

13. The outturn of local authority current expenditure in 1979-80 cannot yet be estimated. The figures for current expenditure in 1979-80 therefore still reflect the levels of expenditure planned at the time of the Rate Support Grant settlement in November 1978. But local authorities have been asked to achieve economies which would result in a lower outturn for 1979-80.

Special sales of assets

14. As announced in the Budget speech, the Government is intending to raise ^{some} £1 billion from sale of assets owned by the public sector in the current year, as a contribution to reducing the public sector borrowing requirement. Measures for raising this sum are in hand. The target for 1980-81 is £½ billion. ^{the corresponding reduction in the public sector borrowing requirement is}

Civil service staff costs

15. The civil service staff costs included in the 1980-81 programme take account of the revised manpower levels flowing from the adjustment to the current year's cash limits and the changes in public expenditure programmes both in 1979-80 and 1980-81. They do not, however, allow for additional savings resulting from the review of the size of the cost of the civil service announced by the Minister of State, Civil Service Department, on 11 June; these will be announced in due course.

The individual programmes

Unless otherwise stated, all the expenditure figures in the following paragraphs are at constant, 1979 Survey Prices.

Defence

16. The provision for the Defence Programme reflects the Government's determination to give priority to strengthening the nation's defences, within the framework of the NATO Alliance, and at the same time to achieve maximum value for money within the resources available.

Overseas aid and other overseas services

17. Overseas aid will be at about the same level in 1980-81 as in the current year. Similarly, the provision for other overseas services is planned to continue at much the present level (except that the current year includes contingent provision for UN peace-keeping operations, and once-for-all grants of military aid to two Commonwealth countries). In order to tailor activities to this level of expenditure, 23 overseas posts will be closed or reduced in size and other FCO services curtailed.

18. The provision for ^{net} contributions to the European Communities and to the European Investment Bank rises from about £920 million in 1979-80 to about £1000 million in 1980-81, representing the full estimated net cost to the United Kingdom under present arrangements; it demonstrates the strength of the Government's case in pressing our Community partners to accept without delay a fundamental change in these arrangements.

Agriculture fisheries food and forestry

19. ^{The provision made for} Expenditure on EEC-financed market support policies ^{allows for an} is fore-
cast to increase ^{of} by £84 million compared with 1979-80. In the rest of the programme there is a net reduction of £77 million as a result of sales of land and changes in various services and their uptake, partly offset by provision for some increase in expenditure on fisheries. (The forecasts for expenditure ^{however,} for 1979-80 on which these comparisons are based, include payments due in 1978-79 but delayed by industrial action; if allowance is

made for these the £77 million reduction becomes £40 million.

Similar delays affected ^{some} other programmes, but not to the same extent.)

Trade, industry, energy and employment

20. Expenditure by the Department of Industry in 1980-81 on industrial support will be slightly below the level now planned for 1979-80. The policy changes announced by the Government on regional and selective assistance, and on the National Enterprise Board, affect both of these years but the full savings will be achieved after 1980-81.

21. Selective assistance by the Department of Energy to certain industries under Section 8 of the Industry Act 1972 and assistance to the nationalised industries, mainly coal, will continue to be provided. This programme also provides for the United Kingdom Atomic Energy Authority's research and development work in the nuclear field and for the Department of Energy's expenditure on energy conservation, research and development activities.

22. ECGD expenditure is expected to increase by £156 million which reflects the once-for-all reduction achieved in 1979-80 by the Trustee Savings Banks taking over some £200 million of outstanding refinance.

23. *The abolition of the Price Commission, which is expected to save £3 million in 1979-80, should produce a full year's saving of £7 million in 1980-81.*

24. The provision for 1980-81 for measures operated by the Manpower Services Commission is held at the reduced level for 1979-80. No provision is made for the extension of the Small Firms Employment Subsidy, the Job Release Scheme, or the Temporary Short-Time Working Scheme which are due to close for applications in March 1980. The statutory short-time working scheme proposed by the previous Government has been dropped.

Nationalised industries

25. The public expenditure planning total includes the 'industries'

borrowing from all sources (line 9 of table 1 as well as Government lending in table 2). The level planned for 1980-81 represents a reduction of £35 million on the expected figure for the current year.

No allowance is made in these figures for the Government's plans for special sales of assets, the proceeds of which are included separately in line 10 of table 1 (see paragraph 14 above).

Roads and transport

26. The roads and transport programme will be reduced by some £200 million compared with 1979-80 and the reductions will be spread widely across the programme. It is the Government's intention that about half the total reduction should come from local transport expenditure, both capital and current. There will be a reduction in central government expenditure on the motorway and trunk roads programme from the level previously planned, but *the level will remain slightly above the reduced volume of expenditure now planned for 1979-80 and* there will be a switch within this programme to permit increased expenditure on motorway maintenance. Roughly *half* of the overall change will result from a reduction in central government subsidies to transport industries, the bulk of which will reflect changes in the arrangements for the funding of British Rail and National Freight Corporation pension schemes. There will also be small reductions in new bus grants, ports investment and transport research.

Housing

27. Public expenditure on housing is expected to increase between 1978-79 and 1979-80 by about £150 million. It will then fall in 1980-81 by about £300 million to about £5080 million. Capital expenditure will be broadly unchanged between 1978-79 and 1979-80 but will fall in 1980-81 by some £240 million. The reduction compared with 1978-79 *reflects* the expected decline in local authority new housebuilding which will result from a change in local authorities' priorities.

28. Current expenditure, chiefly subsidies to public sector housing, is expected to be £30 million higher in 1979-80 than in 1978-79, partly because interest rates have risen. A further increase of about £30 million is expected in 1980-81, although *local* authorities are expected to make higher rent increases than in recent years. Over a period of years the Government intend to reduce ^{Further} the level of housing subsidies, which at present costs taxpayers and ratepayers £1.5 billion - *nearly* a third of all public expenditure on housing. This will be assisted by the new subsidy system for England and Wales, which will start in 1981-82 and relate subsidies more directly to need.

Other environmental services

29. The amount included for 1980-81 for this miscellaneous group of services, mainly provided by local authorities, takes account of savings arising from the Government's decision to abolish the Community Land Scheme. Legislation will be introduced to enable local authorities to reduce their net expenditure on local environmental services by charging for planning *applications* and for the enforcement of building regulations. Capital investment on water and sewerage services is planned to continue at broadly the same level as in 1979-80. Expenditure on the Urban Programme will be at a higher level than is now expected in 1979-80. Capital expenditure on local environmental services is less than the prospective outturn for 1979-80. Expenditure on the Thames Barrier will increase by £28 million with a view to completing the project in 1982.

Law, order and protective services

30. Planned expenditure on this programme will increase to reflect the Government's decision to give priority to law and order. Total provision in 1980-81 will thus be £2,542 million, £23 million higher than the provision for that year in Cmnd 7439 and £88 million higher than expected expenditure in 1979-80. This does

not however include any net expenditure which may arise from the recommendations of the Inquiry into the United Kingdom Prison Services or from the Royal Commission on Legal Services. Included in the total is provision for additional central government expenditure on court services and other legal services, including legal aid, and on prisons. In England and Wales expenditure on the police will be increased to allow an increase in strength to 115,500 officers by March 1981 with increases in supporting staff and services both locally and centrally. If this estimate for numbers of police officers is exceeded, further provision will be made from the contingency reserve. The planned expenditure will also enable local authorities to increase their provision for the probation and after-care service and magistrates' courts; and, in the fire service, will enable existing standards of fire cover to be maintained. In Scotland, additions for these services will be made commensurate with the totals in England and Wales.

Education and science, arts and libraries

Education and science

31. The Government are committed to promoting higher standards of achievement. The number of pupils in schools will be falling but account has been taken, both in teaching and in non-teaching expenditure, of the inescapable diseconomies of smaller scale. The figures in the programme provide for the employment of some 505,000 teachers in 1980-81 (compared with about 526,000 in 1978-79), sufficient for the present level of induction and in-service training to be maintained. It will be necessary to step up the rate at which surplus school places are taken out of use. It should be possible to maintain expenditure on the under-fives at about the present level.

32. The Government expect expenditure savings of some £240 million to be made on school meals, milk and transport. Parliament will be asked to give local authorities greater discretion in the nature of and charges for these services.

33. Some modest expansion of non-advanced further education, especially vocational courses, should be possible to meet rising numbers aged 16 to 18. The resources available for home students in higher education will be about the same as in 1979-80. New overseas students or their sponsors will be expected in future to meet the full cost of their tuition.

34. There will be no reduction in the provision for capital expenditure on school basic need but building programmes for school improvements, under-fives and further and higher education will be reduced by about half.

35. Provision for science at just over £300 million will be slightly less than in 1979-80.

Arts and libraries

36. Direct central government expenditure in support of museums, libraries and the live arts in 1980-81 should allow a continuation of activities at a level broadly comparable to what has been possible in the current year. Planned expenditure includes the contribution of the Office of Arts and Libraries to the £15.5 million to be provided for the new National Heritage Fund and for acceptances of works of art in lieu of tax. Local authority expenditure on libraries, museums and art galleries will fall to the extent that local authorities' provision for these services reflects the reductions in planned local authority expenditure in general.

Health and personal social services

37. The Government plans to maintain spending on the National Health Service in 1980-81 at the level proposed by the last Administration. However, the net cost will be reduced by increased recovery under the Road Traffic Act 1972 of the cost of treating the victims of road accidents, by increasing prescription charges to 70p from April 1980, by revising dental charges so as to maintain their 1979-80 level in real terms, and by limited changes.

in the welfare milk scheme. Gross expenditure will be about 3 per cent above the 1978-79 outturn. Measures which are being taken to eliminate waste and to simplify administration in the National Health Service will enable the available resources to be channelled more into direct patient care.

38. Spending on the local authority personal social services is likely to be reduced. The Government expect that savings will as far as possible be made by further increases in efficiency, by reducing or eliminating low priority provision, by developing policies designed to help people to help themselves and others, and by promoting collaboration with the voluntary sector. Where reductions in standards of provision prove necessary, authorities will be relied upon to implement these in ways which protect the most vulnerable. Authorities have also been asked to give priority as far as possible to those services for children which are concerned with the prevention and treatment of delinquency. Joint finance will continue at the level planned.

Social security

39. Expenditure on social security reflects the numbers who qualify for and claim the benefits, which are in turn influenced by the course of the economy and demographic variations. The figures reflect the Government's intention to intensify efforts against fraud and abuse of the social security system.

Other public services

For the purpose of the calculation, it was taken as a broad working assumption that the unemployed (excluding school-leavers) would average 1.35 million for 1979-80 and 1.65 million for 1980-81.

40. The principal expenditure in this programme is on revenue collection by Inland Revenue and Customs and Excise, and is mainly related to staff. In 1979-80 the programme included £26 million for the cost of the Parliamentary and European elections. For 1980-81 there are small increases for financial administration and population surveys (preparation for 1981 census).

Common services

41. The provision for civil service superannuation, which is £28 million higher than for 1979-80, assumes some increase in the

number of pensions in payment and their average level. Expenditure by the Property Services Agency on the Government office estate in the UK will be reduced

by cuts in expenditure on major new works (mainly on new offices following the decision to reduce the dispersal of Government work from south-east England) and also by reductions in minor works, furniture, rent, maintenance and running costs.

Northern Ireland

42. The Northern Ireland total for 1980-81 reflects, among other changes, the consequences of decisions taken on public expenditure in 1979-80, including the application to Northern Ireland of measures such as the increase in health charges. Expenditure on law^{and} order in Northern Ireland will rise to ensure that the necessary resources are available to combat terrorism.

Public Expenditure 1978-79 to 1980-81

Table 1

£m 1979 Survey prices

	Provisional outturn	P l a n s	
		1978-79	1979-80
1. Central Government	49887	52085	51958
2. Local authorities	18421	18692	17849
3. Certain public corporations	1012	1098	1022
4. Expenditure on programmes	69320	71875	70879
5. Contingency reserve	-	271(a)	750
6. Debt interest	2921	3100	3200
7. Total public expenditure before shortfall and special sales of assets	72241	75246	74779
8. Expenditure on programmes and contingency reserve (4 + 5)	69320	72146	71579
9. Net overseas and market borrowing of nationalised industries (b)	446	-600	-150
10. Special sales of assets (c)	-	-1000	-500
11. Planning total (d)	-	70546	70929
12. General allowance for shortfall	-	-750	-1000
13. Outturn (actual or projected)	69766	69796	69929
14. Percentage change on previous year	+6.0	0.0	+0.2

(a) Balance remaining at 19 October 1979 in the contingency reserve for the current year.

(b) Includes short-term borrowing and capital value of leased assets, which were not included in the planning totals in Cmnd 7439.

(c) See paragraph 14. The precise treatment of the sales in relation to public expenditure and the public sector borrowing requirement depends on the exact nature of the transactions.

(d)

The planning total (line 11) differs from total public expenditure (line 7) by excluding debt interest (line 6) but including all net borrowing by the nationalised industries (ie including line 9 as well as Government lending to nationalised industries in line 1) and special sales of assets (line 10).

Total Public Expenditure by Programme

Table 2

	£m at 1979 survey prices		
	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
	<i>Provisional return</i>	<i>— Plans —</i>	
Defence	7509	7824	8062
Overseas aid and other overseas services	1961	2135	2191
Agriculture, fisheries, food and forestry	896	986	993
Industry, energy ^{trade} and employment	3267	2753	2870
Government lending to nationalised industries	693	1800	1000
Roads and transport	2980	3118	2914
Housing	5226	5380	5078
Other environmental services ^{Current capital}	3330	3303	3213
Law, order and protective services	2370	2454	2542
Education and science, arts and libraries	9567	9657	9246
Health and personal social services	9055	9109	9194
Social Security	18213	19058	19289
Other public services	973	1010	997
Common services	1048	1073	1088
Northern Ireland	2232	2215	2150
Total programmes (see table 1 line 4)	69320	71875	70829

EXPLANATORY AND TECHNICAL NOTES

Explanatory and technical notes were included as Part 6 in the public expenditure White Paper published in January 1979 (Cmd 7439). The following notes supplement that description.

The definition of public expenditure in this White Paper

~~In general, the same definitions are used in this White Paper as in Cmd 7439.~~
2. ~~A few changes in the definition of public expenditure have been made in this White Paper from that used in the last White Paper.~~ The two principal changes are:

(a) Family benefits. The change from child tax allowances and family allowances (including child interim benefit payable during 1976-77) to child benefit was spread over a period of years, and during the transitional period the total for the social security programme included only the net Exchequer cost of the change; this treatment was reflected also in public expenditure totals. The gross cost of child benefit was shown in the main table for the social security programme together with tax revenue flowing from reductions in child tax allowances. Now that the transition to child benefit has been completed by the general withdrawal of child tax allowances, the social security programme and public expenditure totals include the gross cost of child benefit (up to 1976-77 family allowances including child interim benefit).

(b) Net overseas and market borrowing of nationalised industries. The definition has been broadened to include short-term borrowing and the capital value of leased assets. Net short-term borrowing is defined to include the industries' transactions in other public sector debt. The definition of the industries' external financing requirement used in the public expenditure planning total is thus now aligned with that used for their cash limits.

(including
borrowing
and grants)

Main classification changes since Cmd 7439

3. The following are the principal transfers between main programmes that have been made to reflect new arrangements:

(a) Expenditure on computer requirements supplied to central government departments by the Central Computer Agency and formerly included in the common services programme has been distributed to the appropriate functional programmes, reflecting the change to provision against repayment by the user department from 1 April 1980. The other programmes principally affected are defence; trade, industry, energy and employment; roads and transport; housing; other environmental services; law, order and protective services; health and personal social services; and other public services.

(b) Some further expenditure on the urban programme has been reallocated from other environmental services to housing, roads and transport, education, and health and personal social services.

(c) To improve functional control it has been decided to confine the programme for Northern Ireland to expenditure within the responsibility of the Secretary of State for Northern Ireland. Thus expenditure by the Ministry of Agriculture in that area is now classified to agriculture, fisheries, food and forestry, and expenditure on the court service to law, order and protective services.

The price basis of this White Paper

4. Except where otherwise stated, money figures in this White Paper are presented at constant prices (described as 1979 survey prices) to allow comparisons from one year to another of the quantity ('volume') of goods and services used, either directly or indirectly, by the programmes. For most expenditure on goods and services 1979 survey prices are used as they were in the autumn of 1978 (as for most local authority current expenditure the date is, more precisely, November 1978). For most transfer payments, 1979 survey prices are assumed average prices of 1979-80.

5. The average increase from 1978 survey prices (the price basis of Cmd 7439) to 1979 survey prices is $11\frac{1}{2}$ per cent. *The price basis for borrowing by nationalised industries has been changed from estimated prices for the financial year in which the White Paper is published to prices for the preceding financial year (1978-79 for this White Paper).*

Debt interest

6. Total public sector interest payments, corresponding to the estimates in table 1, line 6, on the "public expenditure" definition of debt interest, are as follows:

	<u>£ million 1979 survey prices</u>		
	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
	9900	9900	9800



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10 DOWNING STREET

From the Private Secretary

22 October 1979

White Paper on Public Expenditure in 1980/81

The Prime Minister was grateful for the Chancellor's minute of 19 October on the above subject. She has noted the public expenditure effects of the various options for phasing in the electricity and domestic gas price increases as set out in the minute, and that the Chancellor would like a firm decision on one of the options by the end of this week so that it can be reflected in the forthcoming White Paper.

The Prime Minister has also read the draft of the White Paper which was enclosed with the minute. She has made a few drafting suggestions. Although I understand that the draft has already been printed up for circulation to Cabinet, the Chief Secretary will nonetheless wish to note these suggestions with a view to revising the draft in the light of Cabinet on Thursday. The Prime Minister's drafting changes are as follows:-

- (i) paragraph 3, line 7 to read:
"High Government borrowing has fuelled inflation, has denied the wealth-creating sectors some of the finance they need for expansion, and has led to high interest rates."
- (ii) paragraph 4, line 3 to read:
"First, to bring down the rate of inflation. This means that Government borrowing must be firmly controlled. It is a main determinant of monetary growth."
- (iii) paragraph 5, line 3: delete "and likely to remain so for some time".
- (iv) paragraph 8, line 3 to read:
"It is rather to recognise that the only way in which that improvement can be secured is to earn the money and resources by higher output. But higher output can only come from lower taxes, lower interest rates and less Government borrowing, and better use of investment." Delete the rest of the paragraph.

/I am sending

CONFIDENTIAL

M. R.

- 2 -

I am sending a copy of this letter to Bill Burroughs (Department of Energy), Alistair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

T. P. LANKESTER



A.M.W. Battishill, Esq.,
HM Treasury.

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