



Treasury Chambers, Parliament Street, SW1P 3AG

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David Wolfson Esq
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Dear David,

PRIME MINISTER'S SPEECH TO CONSERVATIVE
TRADE UNIONISTS

You spoke to the Financial Secretary on 13 November about this speech which the Prime Minister is to give on Saturday.

The Financial Secretary has written the enclosed passage which he hopes will meet the Prime Minister's requirements.

Yours sincerely,
Stephen Locke .

S A J LOCKE



Last week we published a White Paper on Government spending which began with this sentence:

"Public Expenditure" - the curious expression the economists use to refer to spending by Government at both Central and Local level, and not by the public at all. "Public Expenditure is at the heart of Britain's present economic difficulties."

Let me explain why public expenditure is crucial - and why we have to make substantial and often unpopular economies on it at the present time. Every family knows that money has to be earned before it can be spent: spending more than you can afford is the road to ruin.

Exactly the same applies to spending by the State. However desirable the objective, the hard truth is that the money has to be earned and the resources provided first.

One of the great illusions of our time is that you can get something for nothing: you can't. As the Americans put it: there's no such thing as a free lunch. The resources for the public services have to be created by a prosperous and thriving industry.

The money to pay for Government spending has to be found by the public itself - on the taxes we pay and (if the Government spending is financed by borrowing) in the high interest rates required by that borrowing and in still higher taxes to pay the Government's own interest bill. For at the end of the day, the Government has no money of its own: everything has to come from the pockets of the people via taxation.

Under the last Government, borrowing rose so much that the interest paid on the national debt was greater than the total amount of money spent on the health service, greater than the amount spent on education, greater than the amount spent on defence. The rise

in interest rates we had to announce on Thursday is itself a direct result of the legacy of Government debt we inherited - just as the present appalling rate of inflation is a direct result of the excessive level of Government borrowing we inherited. And I don't need to remind you of the burden of tax under the last Government.

Public expenditure, however desirable its objectives - and no one wants to see better public services more than I do - if it exceeds what the country can afford is actually self-defeating, for the higher taxes and the higher interest rates destroy incentives and the ability of industry to create the real wealth which alone can provide the resources for better public services in the future.

So we have decided that we simply have to cut our coat according to our cloth.

We have done so with a sense of priorities which may not please everyone, but which I believe corresponds to the wishes of the vast majority of the British people. We have allowed spending on our national defence and on law and order to grow. Spending on the National Health Service is being left untouched. The "safety net" for the poorest among us is being kept firmly in place. [Above all, we have assured that full protection against inflation is given to old age pensioners - whose numbers are set to increase for many years to come.] But elsewhere there have to be economies; I don't want anyone to be under the slightest illusion about this.

Of course, less money needn't always mean a lowering of standards. Look at the vast growth in Government spending over the last 20 years and ask yourself whether standards of public services have really improved so much. There is ample scope for getting better value for money out of the vast sums which Government does spend - and will continue to spend, after the savings we have insisted on. I hope that all those, at both central and local Government level, who are responsible for spending Government money - the taxpayers' money - will seek to spend it with as much care and prudence as if it were their own money they were spending. If we can bring commonsense back into Government spending, if we can resolve not

to spend more than we can afford, then not only will our economy start to prosper as the burden of paying for an over ambitious public sector is lifted from the shoulders of the taxpayer and private industry - but at the end of the day the prosperity of our economy will enable us to have - without any increase in tax rates - the better public services we all want to see. But, I repeat, the money has to be earned first; and there is no way in which a declining economy can allow improving public services. This Government is engaged in the gradual process of removing these burdens. But in a free country there are severe limits to what the Government alone can achieve...