

MR S SHERBOURNE



This is, I think, going to be a very  
important point in the public  
With the Compliments debate,  
of it would be relevant

ADAM RIDLEY *to do*

Special Adviser *on his speech*

*too. I can elaborate if needed*

Treasury Chambers,  
Parliament Street,  
S.W.1.

*AR 6/10.*

*U. also goes to Ferris.*

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E.12 LTPE

FROM: ADAM RIDLEY  
6 October 1983

*87/ho.*

CHANCELLOR

cc CST  
FST  
EST  
MST  
Mr Middleton  
Mr Bailey  
Sir T Burns  
Mr Byatt  
Mr Mountfield  
Mr T Hart  
Mr Hall  
Mr Lord  
Dr Rouse

THE DEBATE ON  
LONG-TERM PUBLIC SPENDING: THE IMPORTANCE OF THE TAX OBJECTIVE

We already know from recent contacts with Channel 4 and the IFS that we could be wrongly tripped-up and made to look silly by the long-term projections of taxation which the IFS have prepared.

This is important since Max Wilkinson's articles in today's Financial Times make it very likely that this issue will be a lively one in public debate from tomorrow morning onwards, when the IFS are to publish an article on LTPE and associated issues.

2. The key point is this. The Government's long-term tax objective as I understand it, and you made clear in your interview with the FT on September 7, is above all to bring down the total burden of taxation, as measured as a percent of GDP. The more specific objectives of lowering the burden of tax on people and companies are an expression of that general philosophy, and do not override it. It follows directly from this in the LTPE context that, in a world in which we are not any longer looking for dramatic changes in the GDP percentage of the PSBR, the only thing that really matters is whether the public spending share rises significantly or not. If it does rise, the tax burden will inexorably have to do so too in aggregate.

3. We are in a bit of difficulty, however, when it comes to the somewhat academic-seeming but essential question of just what the Government's tax objectives are. In drafting the Manifesto the feeling was, I think, that our desire for a lower aggregate tax burden was so obvious that it did not need mentioning, and we therefore restricted ourselves (on page 19) to saying "further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment trap. We want to encourage wider ownership. This means lowering taxes on capital and savings; encouraging individuals

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to invest directly in company shares; and encouraging the creation of more employee share schemes." These were a clear indication, as the text makes pretty explicit, of the Government's priorities. They do not, therefore, constitute a full expression of the overall goal. The interrogation of the Prime Minister and previous Chancellor at various Press Conferences was also conducted in the same framework - with questioners seeking essentially to find out what were the main priorities of the Party henceforward, rather than questioning whether or not the tax burden would or should rise or fall.

4. Outsiders such as the IFS will, however, be making a central part of their analysis the proposition that we have probably underestimated the yields of some kinds of taxation, for example on North Sea oil. Therefore there could, on some assumptions, be a lot of surplus revenue to be used in the later part of this decade to achieve the Government's more specific goals of cutting taxes on persons and companies and at the same time finance a heavy public spending burden and a suitably modest deficit. They will thus implicitly or explicitly be resting their argument on a view that the fundamental objective of tax policy is to attain the specific goals indicated in the Manifesto, and perhaps particularly cutting income tax. There are undoubtedly points on which we could dispute the IFC's projection of taxes, and most certainly on North Sea taxation if that is where they think our underestimates are greatest. This is not, however, the best ground on which to seek to refute their case in the public debate. Far more important is the fact that, for the reasons given earlier, the goal of policy is to reduce the overall burden of taxation, and the scope for doing that is not really affected at all by the secondary arguments based on projections of tax revenue. All our case hinges on is the share of public spending in GDP. If we make our main reply to the IFS case one that rests on that ground, then their calculations can be dismissed as more or less totally irrelevant.

5. Sustaining such a case depends, however, on our making it clear right from the start that the IFS analysis rests on the wrong construction of the Government's tax objectives. This in turn means that it is vital to get over to outsiders as quickly and clearly as possible that the Manifesto statement of objectives

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only tells part of the story, and that what you said to Max Wilkinson on September 7 represents the heart of our tax objective. If this advice is accepted, we have no time to lose, and should be using it directly from tomorrow onwards, once the IFS argument is in the open.

6. It would also help greatly, of course, if speeches at the Party Conference underlined the same point - not least the Chief Secretary's, which comes conveniently right at the beginning of the Conference week.

*AR*

A N RIDLEY