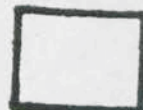


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Attorney General
Robert Armstrong.

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Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

5 March 1984

Dear Chancellor

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Thank you for sending me a copy of the draft Green Paper on 'Public Expenditure and Taxation in the Longer Term'. I think it will make a valuable contribution to the debate about public expenditure trends and leave the Government less vulnerable to conspiracy theories about our intentions in this field. I have no specific Northern Ireland points to raise.

There are, however, a few small points in the text with which I was not wholly happy, and I wonder if some adjustments could be made?

page 2, para 4, final sentence: I think this formulation is a little bald, surely a major factor in deciding 'what can be afforded' is what the public feels should be priorities. There can be no absolute and immutable calculation of precisely how much public expenditure can be afforded by the country in isolation from consideration of the tasks which have to be undertaken. For this reason I prefer the formulation to be found in paragraph 25, that is: 'it is necessary to turn the argument round the other way, to decide first what can and should be afforded, and then to set expenditure plans for individual programmes consistently with that decision'.

page 3, para 10: It is quite right to include an analysis of the 'powerful forces at work driving public expenditure upwards' and this is done comprehensively later in the text but taken this early in the text I think it may be politically dangerous to single out the rise in social spending only in company with the growth of public spending for 'economic reasons'. It would, I believe, be more even handed, and more in tune

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with the tone of the rest of the document, if other factors were also mentioned here such as: the rise in unemployment and the costs associated with this; the growth in public sector manpower; the increases which have taken place in spending on law and order; the problem of nationalised industries; and, perhaps, differential inflation in some public sector programmes such as health and defence.

page 11, para 18: Either here, or arguably, earlier in the text I think we need to guard ourselves against suspicion that we intend to attack those sections of social spending aimed at the most disadvantaged in society by entering a disclaimer such as adding at the end of this paragraph: 'Of course a significant part of these increases in public expenditure arose because Government took an increasing role, particularly in the provision for severely disadvantaged groups in our society for which action a clear consensus existed at the time and still exists today.'

page 19, para 41: I wonder if this paragraph on capital expenditure understates the problems which we may have to face over the next 20 years as some of the infrastructure put in place during the Victorian era becomes in need of replacement?

page 21, para 49: I would suggest a rejigging of the last two sentences to read: 'However, as experiences over many years and in many countries has shown, the reality of spending decisions has been that total public expenditure has been raised to a level which shows too little attention to the consequences for incentives and growth. This process cannot be allowed to continue. Far too little regard has been paid to what taxpayers will tolerate, although their willingness to pay relatively high taxes is enhanced in the case where there is wide consensus on the objectives being pursued by Government, and if the public has confidence that public expenditure is producing good value for money. In the late 1960s the then Chancellor of the Exchequer, Mr Roy Jenkins, questioned whether Britain was reaching the limits of her taxable capacity, the question is still more urgent today'.

Your sincerely

Derek Hill

Approved by the
Secretary of State
and signed in his
absence.

6 MAR 1964

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