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Nigel Lawson

GREEN PAPER ON PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

File with AT.
The main point which strikes me on reading the draft of this paper circulated with your minute of 29 February is as follows.

I find the arrangement and some of the content of paragraphs 48-62 confusing and complex. The sections on public expenditure up to paragraph 47 are clear. But what the layman expects after the Section (III) about future prospects for public expenditure is a section about future prospects for the tax yield. This would correspond broadly to paragraphs 48-54, but these paragraphs are now headed: "Future Prospects for the Tax Burden". That seems to me to blur and anticipate the later head: "Public Expenditure and the Tax Burden". There is also blurring and duplication between the contents of the two sections.

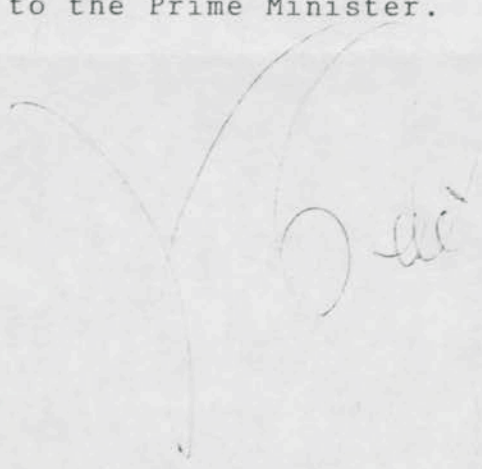
I think a better result could be achieved by sorting out more rigorously the material about factors other than public expenditure bearing on the tax burden and for putting all the material about the impact of public expenditure on the tax burden in the subsequent section. On this thought, the first section would consist of paragraphs 51-54 and paragraphs 48 and 49 would belong in the second section. The material about debt interest ought, it seems to me, either to move forward into the section on future prospects for public expenditure or, less satisfactorily, be treated as a separate section immediately before the Conclusion.

As regards what is said in paragraph 54 about North Sea tax revenues, I would rather give this somewhat less the character of a forecast by simply stating the conclusion, as arrived at on

certain assumptions, and referring the reader for details to Annex 4. I would also like to add that the Government will do everything it can to maintain output, and therefore tax revenue, from the North Sea.

I also enclose a note of one or two drafting points.

I am copying this to the Prime Minister.


PETER WALKER

Some detailed comments

Para.14. There is some awkwardness about showing Energy in Chart 4 as the fastest growing programme and then confining comment to a short footnote about the Redundant Mineworkers' Payment Scheme. The great bulk of the 1983/4 expenditure is deficit and social grants to the NCB (over £700m) and RMPS (£200m). Perhaps the answer is to say, in a footnote or in the text, that about 80% of the 1983/4 Energy expenditure relates to these two factors.

Para.49. The first sentence reads oddly. Its sense turns heavily on giving full weight to the word "total", and it is liable to be read as saying that public expenditure should only reflect "in some degree" the purposes and needs of particular programmes. It might be safer ^{to say} that there is a risk that public expenditure as a whole will be driven upwards by demands in particular programmes which are not offset by reductions elsewhere; and that controlling the total calls for a rigorous application of priorities. This is also in line with paragraph 70.

Paras.55/56. It does not seem clear which of these paragraphs is chicken and which egg. 55 says some fall in real interest rates can be expected and adds that falling inflation also points to lower nominal rates. 56 says that falling inflation and interest rates require a further reduction in the PSBR.

Para 65. "The plans in the White Paper, like those in the 1982 and 1983 White Papers, represent a major change in direction ...". Three changes in direction?

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