



SW

10 DOWNING STREET

*File*  
*Public Expenditure*

*From the Press Secretary*

9 January 1984

*Dear Brian,*

I attach for your comment/correction/improvement/amendment/rewriting, a draft speaking note for Ministers which I must put up to the Lord President on Friday for circulation to Ministers on Monday.

I would be grateful for your advice - just as I appreciated your help in clearing my mind preparatory to its drafting - by close of play tomorrow (Thursday) - ie 5pm.

I am copying this letter to Miss Jefferies (COI), Mrs Hewlett-Davies (DHSS), Mr Moorey (Department of Employment), Mr Culpin (HM Treasury), Mr McDonald (Department of the Environment), Miss Bowe (Department of Trade and Industry), Mr Redwood (No 10), Mr Maclean (Chief Whip's Office), Mr Lewis (Lord Young's Office), and Mr Gaffin (Department of Education and Science).

BERNARD INGHAM

Brian Mower, Esq.,  
Director of Information,  
Home Office,  
50 Queen Anne's Gate,  
London, SW1.

DRAFT SPEAKING NOTE

To hear many people talk these days you would think that there was little money being invested in Britain whether on re-equipping our industry, creating new capacity or repairing and renewing the fabric of the nation.

But that is simply not true.

Overall, investment is at an all time high. In fact, it looks like being 8% up in 1984 on 1983.

Our opponents used to call for huge further investment of capital running into many billions of pounds with the aim, they said, of creating many more jobs.

But now their demands are much more modest, no doubt because it has dawned on them that there is already a lot of public sector investment - about a quarter of the total. And this public sector investment has been maintained in real value - ie allowing for inflation - since the Government came to office.

No doubt it has also dawned on them that huge increases in public investment would starve the private sector of money, increase the demand for cash and raise interest rates. That in turn would increase inflation which is the great destroyer of jobs.

So the argument now is not whether there should be massive increases in public sector investment but how the Chancellor of the Exchequer should use any available cash.

The Government's - and the Chancellor's - approach is governed not by doctrine but by what will best serve the interests of the country and, more particularly, the creation of jobs.

Those interests, it is clear, are best served by holding - indeed driving - down inflation and maintaining steady expansion. There can be no hope for the jobless if the country is becoming less competitive and if growth is put at risk. Britain has now had four years of continuous expansion and we must nurture it.

So what does the argument boil down to? Essentially, after Hamlet, it is this: whether it is better to put any spare cash the Chancellor has into public investment - into roads, housing repairs, sewers, etc - or



into tax cuts? The Government has no doubt which is better: it is to reduce taxes, and more especially raise the tax threshold - ie to remove as many people as possible from taxation by raising the level at which they start to pay it.

Why? Basically for four reasons:

First, the relatively small sums which are generally now urged for public investment will have little impact on unemployment; indeed they could destroy medium term more jobs than they create short term by raising taxes, interest rates and inflation and damaging our competitiveness.

Second, reducing tax is good in itself because it not only gives more people more incentive by leaving them with more of what they earn to decide themselves how to spend it; it also helps to lower wage settlements. And lower wage costs encourage employers to take on more employees. A 1% reduction in wage costs is worth up to 170,000 jobs.

Third, lower taxes in the form of higher thresholds help the lowest paid, make it more worthwhile for people caught in the poverty trap to take a job and generally promote greater enterprise.

Fourth, removing as many people as possible from taxation, and more generally reducing taxation, promotes the self-reliant, enterprising society which is the mainspring of jobs, greater wealth and a sounder, more buoyant country.

So lowering taxes, instead of vainly spending money to create jobs with little prospect of lasting, not only helps individuals; it also reinforces the economic policies which are in the real interest of the people.

This is the clearest possible demonstration that the Government really cares. And keeps on caring.