

PRIME MINISTER

PUBLIC EXPENDITURE

This has been a curious day and you should have a report on it.

Yesterday I was fearful that we would get an appalling press - all U-turns, rip-roaring spending, tax cuts and a snap election in 1986.

There was enough in the media reaction to your Lord Mayor's banquet speech to reinforce these fears.

I had no doubt last evening, after the Autumn Statement, that we should get a battering. U-turns. Let rip. Political advantage, etc. We have had all that, but curiously without conviction.

As the Daily Mail said this morning: "... it would be totally out of character for either he (the Chancellor) or Margaret Thatcher, to stop pile driving [ie building sound foundations] and start jerry building."

As of now, I believe that you and the Chancellor are living on your reputations.

This is not a question of whether you are right or wrong. Most people haven't a clue either way. But their gut feeling is that they don't believe you are for turning, after six years.

What therefore you and your colleagues have to do is to:

- extol the virtues of prudent, tough, careful management of the country's finances

- explain that the economic performance as a result of this prudent management is creating more resources for both public and private sectors
- you are not by any stretch of the imagination privatising for "family silver" reasons but because private management produces more wealth for public as well as private good
- the amount of public borrowing is falling by any calculation as a proportion of GDP
- therefore, if all things are equal and unchanged, you hope to reduce taxes
- But, there is a long way to go to next Budget/Spring; don't count your chickens
- but do count on the Government to put nothing - and most of all inflation - at risk
- after 6 years' hard work this Government is not now in the business of throwing it away; it is in the business of winning a third term in the interests of the country.

But what interestingly has happened is that the markets are OK. The Opposition is in a state of frustration/sulk/defeat because it does not know where to turn. [The Daily Mail said this morning that the "Opposition ... looked and sounded in the Commons as if they had just lost the next election."]

But perhaps most important - after the markets - the press are not interested. They are concentrating on the Anglo-Irish Summit.

This leaves me with the thought: when you have two problems  
announce each on successive days.

One other plus point: I am astounded that the housing shock  
condition report has attracted so little notice. This is a  
vindication of the policy of involving the Lord President,  
Chief Whip and myself in awkward presentational problems so  
that we can hammer them out.

So far, so good. We can't count on it lasting.

But remember your are not turning, have not turned and will  
not turn.

That's the Maggie they know.



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