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PRIME MINISTER

13 November 1985

THE AUTUMN STATEMENT

1. The response of the markets to the Autumn Statement was bullish. The market is delighted with the strong performance of the economy, but also sceptical regarding:

a. the presentation of asset sales;
b. oil prices;
c. unit labour costs;
d. the dropping of £M_3.

2. Your own doubts regarding the relationship between public expenditure and asset sales are well based. Peter Middleton made an important point this morning: the danger of an adverse market response to present fiscal policy will come in the run-up to the next Budget, especially if the market feels that the Chancellor is taking a risk by the likely size of the intended tax cuts.

3. The discussion over public expenditure and asset sales within the Autumn Statement boils down to three simple points:

a. If there were no asset sales next year, then:
<u>either</u> the PSBR would be higher;
<u>or</u> public expenditure would be lower and taxes higher.

b. Even excluding asset sales, the ratios of

$$\frac{PE}{GDP} \quad \text{and} \quad \frac{PSBR}{GDP}$$

are nevertheless on a downward path, as set by the MTFS.

Not a point for public use.

c. The reason public expenditure is enabled to increase but not get out of hand is the very buoyant recovery of the economy.

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