

PRIME MINISTER

PUBLIC EXPENDITURE

Papers below are as follows:

- A - possible opening speaking note
- B - line to take for Bernard after Cabinet
- C - a note by Bernard on presentation

I suggest that at the end of Cabinet you should tell Cabinet your intention to set up the Star Chamber in the Autumn and then read out the words suggested by the Treasury. As Robert Armstrong says, you might also emphasise that other members of the Cabinet should adhere to this line, that bilaterals should be carried out in confidence and that the media should be given no grounds on which to base speculative stories on ministerial disagreements.

Bernard is concerned, as I am, about the effects of not making an announcement that the Government will stick to the existing planning totals. The alternative, which we have discussed with the Treasury, is to say that the Cabinet made no change to the planning totals. I suggest that you should not say this to Cabinet - to do so could open up undesirable discussion. But, subject to the Chancellor's agreement, it would be helpful for Bernard to say this.

*DRW*

DAVID NORGROVE

22 July 1987



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A

SPEAKING NOTE FOR THE PRIME MINISTER

The Chancellor's paper provides an encouraging picture of the economy, but it is important to draw correct messages from this and to avoid complacency.

i. Although public spending has been coming down as a proportion of national income, its share this year (around 43 per cent) is likely to be about the same level as we inherited in 1978-79.

ii. Although taxes have been cut in each of the last five Budgets, the burden of non-oil taxes is still significantly higher than it was in 1978-79.

iii. The strength of the economy has been built on sound finance and the restraint of public spending. We have achieved a consistency of policy which has given confidence, which in turn has transformed the investment climate in this country.

iv. Although inflation is low by historical standards, at 4 per cent it is still above the average for our major competitors.

2. Looking to the future, we must set spending plans which sustain this confidence. The Chancellor and Chief Secretary seek a continuation of the Manifesto policy of reducing public spending as a proportion of national income. And by this they rightly mean not just any decline, however small, but one at least as fast as we set ourselves in the last White Paper. This is essential if we are to achieve another of our Manifesto pledges - a further reduction of taxation.

3. Restraint of public spending is also the best way to build up our public services. For it is the resulting strength of the economy which will provide the resources we need to carry out our Manifesto programme.



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4. Although growth this year looks like being faster than the recent trend, we must not fall into the trap of previous governments of basing our spending plans on over-optimistic projections. We must plan on a cautious assessment of what can be afforded.

5. It is clear that the bids submitted are inconsistent with the policy we are following. The bids will have to be substantially cut back or policy savings found to offset them. As the Chief Secretary's paper points out, this may involve difficult choices. But now, at the start of a Parliament, is the time to face up to them. Across the whole range of spending, I hope there will be a thorough review of the options, not just within bids but within baselines as well.

6. Meanwhile, the pursuit of better value for money must continue. I welcome the Chief Secretary's proposal to establish medium-term efficiency plans for departmental running costs. We must also seek greater effectiveness for departmental programmes.