

CONFIDENTIAL

RA - this Expense



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

13 July 1988

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Paul,

... I enclose some supplementary Q and A briefing for use after Cabinet, additional to the material I sent you on Monday.

I am copying this letter to Bernard Ingham.

Yours
Moira

MOIRA WALLACE

ADDITIONAL BRIEFING ON PUBLIC EXPENDITURE CABINET

1. If you can afford £4 billion tax cuts (for the rich) why can't you afford more for the health service, social security, etc (for the poor)?

The plain fact is that this year we increased expenditure on the Health Service by over £1.8 billion and on Social Security by some £2.2 billion to take these programmes to their highest levels ever. Moreover, our expenditure plans allow for further growth in the next two years. These plans were established before any reductions were made in tax. Nor have our tax cuts concentrated on the rich. We have reduced tax rates for all taxpayers at all levels of income.

2. MTFS showed £3 billion fiscal adjustment for 1989-90. Given buoyant tax revenues, the real figure is higher still. Is none of this to be used for expenditure increases and all of it for tax cuts?

The aim for the Survey is to keep expenditure on a sustainable medium term path. As our plans show, this will allow continuing real growth. Much too early to judge what room if any there may be for tax reductions in the next Budget.

3. Budget forecasts of tax revenues will be exceeded, so why not increase expenditure also?

No new forecast now. But even if true, quite wrong to adjust expenditure to use up whatever revenues happen to arise in any particular year. This would be disruptive for programmes and harmful to the economy. Our plans will continue to be set on basis of what can be offered in medium term context.