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PRIME MINISTER

BUDGET AND ECONOMY

Taxes up, public spending up, interest rates up, unemployment up, even Income Tax and National Insurance up (as a percentage of earnings). That is the story since 1979 told in these dismal documents.

The proposal is now to raise the contingency reserve for future years because it is feared the Public Spending figures (including the whole reserve) cannot be delivered. That will not reassure markets - they will fear that:

- a. even this government cannot hold the line - the will has gone.
- b. if the old line cannot be held, why should the new one?
- c. the Government no longer believes its main strategy of lower spending and lower taxes to rebuild enterprise: it has U-turned through tiredness and by default.

There is no alternative to holding the spending totals. And that means agreeing some reductions now. Why not start with no uprating of unpledged security benefits this autumn? And squeeze other departmental expenditures across the board by £500m if no specific savings can be volunteered quickly.

Only by using the sterling/interest rate crisis to galvanise colleagues can you hope to salvage the strategy of lower taxes, lower public spending and more enterprise. And

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only then can market confidence (and voter confidence) be rebuilt. You never give in. Don't let others give in for the government at such a vital juncture: it would give the press a field day. The expenditure totals must be held.

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JR

13 February, 1985