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PRIME MINISTER

The Chancellor's draft Budget Speech is below.

You may be able to pass any comments to the Chancellor by telephone. If not, there will be a car to take a minute from you to the Chancellor ready to leave at 1100 on Saturday morning. Could you please tell the Garden Room Girl at Chequers early on Saturday whether you will need the car, so that the driver can be stood down if not required? (There will be proper security for your minute.)

The speech itself is short - the Chancellor is aiming to give the shortest speech this century, under an hour - and well written. Two things struck me.

First, paragraph D7 makes several very firm statements about a PSBR set at 1 per cent of GDP. They seem to me too firm.

As you know, the MTFS will show a PSBR at 1 per cent of GDP throughout the period it covers. This may well be right. It would be possible to show the PSBR declining further to balance or even into surplus. But in the coming years privatisation proceeds are likely to decline, so the "quality" of the PSBR will be improving, and on top of that there may well be a shortfall in privatisation receipts.

On the other hand, to make firm statements about the desirability of 1 per cent of GDP is itself a hostage to fortune. Suppose the forecast next year showed another £6 billion fiscal adjustment, it would surely not be right to reduce taxation by the full amount, in almost any likely economic circumstances. There are also great uncertainties about the oil price. It could be \$25 or \$10 this time next year and the PSBR could quite properly be set above or below 1 per cent of GDP.

The Chancellor appears to believe that if circumstances change he can change the figure. But that is not the implication of his Budget Speech, even if there is the usual qualifying sentence in the published MTFs that the PSBR in each year will be set nearer the time. Just possibly, he may see the figure as a way of tying down the colleagues on public expenditure. But he did not mention this point when I discussed the paragraph with him, and certainly it seems very hard to believe it would have any effect: everyone knows that the PSBR can be adjusted from year to year.

Finally, the theoretical basis for a PSBR at 1 per cent of GDP is not unchallengeable. Indeed, in the end the figure depends on the Chancellor's hunch. But if we had experience of public sector surpluses we might well regard those as the natural order of things.

I have marked on paragraph D7 three amendments designed to weaken the commitment to a PSBR of 1 per cent of GDP, whilst retaining the Chancellor's words as far as possible.

The second point to which I would draw your attention is the phrase marked in paragraph F2: "what used to be called, when ambitions were more limited and language more inhibited, a property owning democracy". This seems rather flip, though the Chancellor regards it as lightening the speech.

I attach a draft minute for your signature if you agree with these comments.

DW

(DAVID NORGROVE)

13 March 1987

DCABUG

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