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CHANCELLOR

cc Chief Secretary
Sir D Wass
Mr Middleton
Mr Ridley

JOHN REDWOOD ON THE CURRENT ECONOMIC SITUATION

I have seen Mr Ridley's minute to you of 27 August, attaching a copy of a letter from John Redwood.

Master Redwood is making a mouthful of a perfectly straightforward point. For all his verbiage, he is basically suggesting that we should do what we are doing, but more so. If this year's PSBR is £10 billion, as he suggests, that compares with an inherited (1978-79) PSBR equivalent to £13 billion at 1980-81 outturn prices. This is a significant reduction, which would be even greater on a constant employment basis. John Redwood's proposal, however, is that we should have reduced it further to £5 billion - not by increasing taxation, but by further public expenditure cuts. The fact that, had we done so, various advantages would have accrued, is not in dispute. The question is how? His letter stands or falls on the answer to that question.

NIGEL LAWSON

9 September 1980