

CONFIDENTIAL

cc Mr. Kerr  
Mr. Hoskyns  
Mr. Duguid  
Mr. Vereker

(2)

MR. SCHOLAR

*ms*

Prime Minister

*Work on the lines of your*

CABINET MEETING ON PUBLIC EXPENDITURE

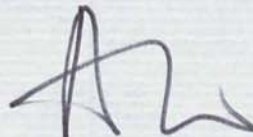
*discussion earlier this evening*

Among the many misapprehensions that appeared today, one <sup>PLS 20/10</sup> seems to me very important, and it was not identified and rebutted. This is the quite correct belief that the outcome of the PSBR is subject to very large errors does not imply that one should not aim for a precise PSBR.

I believe it is of the utmost importance to have a precise target for PSBR in mind. The outcome being the difference between two very large numbers is bound to have large errors in it. But the purpose of having a precise target for PSBR is not to get a precise outcome, but first to create the appropriate policies, and secondly to indicate those policies to the markets of the world. It is the policies that matter. The outcome will be affected by all sorts of events over which we can have very little or no control.

To emphasise this point, you might observe that we know the average error of the outcome compared with the target PSBR is about four billion. But this does not mean that it does not matter whether a target PSBR is nine billion or 13 billion. Clearly it matters a great deal. It is like shooting at a target. You aim for the bullseye in the hope that you will get somewhere near the centre of the target. If, however, you wave your gun around vaguely around the periphery of the target, it is likely that you will be nowhere near hitting it.

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ALAN WALTERS

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