

Secret & Personal

(PA)

July 14th
7.00 pm.

Prime Minister

Public Expenditure

I did not see the Chancellor's paper until 4.45 pm today and so I could not respond adequately before your meeting with him. But, having looked through his paper and reflected on his recommendations, I must advise you to ~~avoid~~ grasp a painful nettle.

This is the one non-repeatable opportunity to roll back public spending. If a Tory majority of 144 cannot do it, then there is little hope for Britain.

The context of the whole discussion is "what-we-have-we-hold-onto-we-want-more". Everything is essential. There is no real attempt to identify functions or programmes which can be eliminated so the public sector rolls on.

I believe that it is possible to galvanise colleagues to pursue a real and substantial reduction in public spending. They need a strong lead and only you can give it. They will then follow - with many a grumble but also with admiration.

Heath