

cf 5V



Prime Minister (2)

To note
We postponed thecirculation of this minute
until after
yesterday's debate.Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

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We have earmarked

Sep 9 as the date for Cabinet
discussion - 1/2 day, after lunch.

LONG TERM TRENDS IN PUBLIC EXPENDITURE

In my minute of ^{Pt 18} 8 March, I suggested that officials should undertake an examination of the likely pattern of public expenditure over the next decade.

Ms 28/7

re-circulated as c (82)32
... 2. This study has now been completed and I attach a copy of a report by a group of officials on which the main spending Departments, and the CPRS, were represented. The report considers what, on the basis of certain hypotheses about developments in the economy on the one hand and expenditure programmes on the other, public expenditure might amount to by 1990.

3. As expected, the picture is bad. Only on hypotheses that are rather favourable as regards the economy, and relatively modest as regards expenditure programmes, does public expenditure as a percentage of GDP come out lower in 1990-91 than it was in 1979-80. In cost terms the prospect on any of the hypotheses is for big increases over this period.

4. The report shows clearly how the balance of our public expenditure programmes has changed and will, on present policies, continue to do so. It also shows the extent to which the four largest programmes - social security, health, education and defence - dominate public expenditure. In 1979-80 the four programmes between them amounted to about 60 per cent of the total. By 1990-91, on these projections, they would amount to about 63½ per cent, even in the "best case". Within that, defence would take a higher proportion and education a smaller proportion of the total.



5. The officials' report looks forward, and shows a generally rising trend of future expenditure. Forecasting in an uncertain world is difficult. But if we look backwards over the last twenty ... years (Table A annexed) a consistent upward pattern emerges, broken only by the two external crises of 1967 and 1976. Even then, the upward trend was soon resumed.
6. Clearly we cannot go on like this. If we are to break the pattern decisively - as we must - then we shall need to consider radical changes affecting most, if not all, areas of policy. Unless we are willing to tackle some pretty basic questions in a fundamental way, then, so far from being able to offer the chance of some easement of the tax burden (clearly desirable for industrial recovery) we should face instead the prospect of endlessly recurring "public expenditure crises".
7. It would, I am sure, be helpful if Cabinet was now able to engage, on the basis of the officials' report, in a very broad-ranging discussion about the Government's long-term objectives for the size and shape of the public sector. We should not be inhibited at this stage by such considerations as the need for legislation, the existence of past commitments or the alleged political impossibility of change. A discussion of this kind would pave the way for some major strategic decisions affecting our programmes as a Government for the next Parliament.
8. Obviously there is some connection between decisions on this year's public expenditure Survey, at any rate as regards the last year 1985-86, and the longer term. Nevertheless I believe that it will be more conducive to the kind of broad exchanges that I have in mind if our discussion of the longer term is distanced somewhat from our preoccupations with the Survey.
9. It seems to me that it would be difficult to conduct an adequate discussion about the longer term within the framework of our regular



Cabinet meetings, and that some special arrangements for this discussion will be needed - perhaps a specially convened meeting of the Cabinet. If such a meeting took place in September, it could also form part of the preparation for this year's Party Conference, at which we shall no doubt be under pressure about various aspects of public expenditure.

10. I should of course circulate a paper of my own for discussion with the officials' report. I hope too that we might look to the CPRS for support in the form of a paper pointing up some of the longer term options open to us, especially as regards the possibilities for major structural changes affecting the largest expenditure programmes.

11. I am sending copies of this minute and the officials' report to members of the Cabinet, Sir Robert Armstrong and Mr. Sparrow.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

G.H.

28 July 1982