

PRIME MINISTERPUBLIC EXPENDITURE IN THE LONGER TERM1. The task of explaining

The Treasury's projections have wonderfully concentrated the minds of Ministers and officials upon the growing burden of existing commitments and lines of policy. We recognise that this burden, if unaltered, will within the next decade call for taxation at intolerable levels which can only seriously damage our economy.

Yet we have still to convince the public of this. In particular, we have to educate the public in the uniquely large size of Britain's nationalised sector. No other Western nation has both a 95% nationalised education service and a 95% nationalised health service, as well as a high degree of nationalisation in the fuel, transport, and basic heavy industries and the utilities. While, say, Sweden may have a comprehensive welfare state, her industry has a remarkably low degree of nationalisation. State control in France covers a wide variety of industry and services, yet there is room for the private sector to breathe in the provision of welfare. It is vital to get across that Britain is still conspicuously over-nationalised by Western standards.

2. The options

The CPRS performs a valuable task in confronting starkly some of the options for the four major sectors where increased spending is certain on existing policies.

However, I doubt whether these options exhaust the possibilities. And in some cases, they tend to propose solutions that are so politically difficult that we may be tempted to shy away from the whole idea of radical reform and ignore less unpopular alternatives.

We do not have either to do nothing or to cut or abolish state services which have been with us for a century or more.

Instead of crude cutting, a better alternative strategy would often be to freeze the public service and boost the private element. What has gone wrong, after all, is not so much the existence of a public



service in the first place as the progressive throttling of private contributions and alternatives.

### 3. Private health insurance

The growth of voluntary private health cover, from 2½ to 4 million persons under this Government, is phenomenal. To extend the existing corporate tax reliefs to individuals might well unleash a further spurt. This would require only a modest amendment in a Finance Bill. It would avoid the huge complications of fitting a compulsory national private health insurance scheme in with an inescapable public safety-net scheme. It also avoids the bureaucracy and hard cases inherent in a means-tested extension of charges.

If we combine:

- (a) fiscal encouragement of the natural growth of private health insurance;
- (b) equally natural extension of the de facto tendency towards privatisation in the optical, dental, etc services;
- (c) increases in those charges which are cost-effective;
- (d) proper control of costs in the NHS hospitals and in the GP services,

we would be resuming the natural growth of the alliance between the communal and individual provision of health care which is the British tradition that has been interrupted by the progressive squeezing out of the private sector in the post-War years.

### 4. A revived alliance between private and public in education

Again, on education the CPRS's options seem incomplete; they omit any serious consideration of vouchers or, as W E Forster put it in 1870, education "tickets".

The prime purpose of vouchers is to confer power on less well-off parents.

But a subsidiary effect is to provide scope for increased private expenditure on education. If we set the state voucher at a basic, or "no-frills" level, then we would expect both l.e.a. schools and independent schools to have their income supplemented in order to satisfy parental expectations - either by parents themselves, or by grants from the rates, or by contributions from churches, charities and businesses. This is the kind of partnership which is taken for granted all over the Continent and in Northern Ireland.



To take a simple example, if we froze the ticket or capitation grant at roughly the present level of £900 per pupil, a contribution of £3 per week from non-state sources (the equivalent of 10 cigarettes a day) would produce a 16% increase in expenditure per pupil.

## 5. Social security

We must distinguish between:

- (a) the problem of retirement pensions, where we have consistently promised to maintain purchasing power; and
- (b) the problem of unemployment benefit where any commitment to maintain purchasing power runs into the poverty trap and the "why-work" syndrome.

With retirement pensions, the only economy that is realistically to be expected is that they should be frozen at their present real value. Considerable savings can, however, be made by making sure that miscalculations about the future rate of inflation do not allow real benefit levels to creep upwards. The expectation of a real annual 1% increase in Scenario A ought not to be tolerated.

The levels of unemployment benefit must be fitted into Government strategy for reducing unemployment, and cannot be discussed solely in the light of economising on Government expenditure.

But any effective strategy for reducing unemployment must have the beneficial side-effect of reducing Government expenditure as well.

## 6. Defence

The Secretary of State for Defence rightly points that the peculiarly adverse impact of the Relative Price Effect on defence spending is sometimes acknowledged by the Treasury, and sometimes not.

He claims that an "adequate" defence and deterrent capability can be manned only by continuing to aim for a 3% real increase in expenditure each year into the foreseeable future. He envisages that defence spending should rise from just over 10% of general Government expenditure to nearer the average of the 1960s, at about 15%.

But of course there is no reason to assume that the increase would stop there. Since the increase in the growth of the economy is unlikely to come anywhere near 3% per annum, and since the adverse

RPE is unlikely to vanish in 1990, the progressive militarisation of Government spending - and of the British economy as a whole - would be open-ended. Historically, it is reckoned that an over-militarised nation is in the end likely to be as unstable economically and politically as an under-militarised nation. There are two things we can do:

- (a) Insist on the most rigorous and continuous independent appraisal of defence spending in all its aspects. The Treasury does not at present seem equipped for this massive task.
- (b) Re-examine what we mean by "adequate".

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