PO-CH/NL/0062

PART A

Para.A.

SECRET

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Begins: 5/1/84
Ends: 6/7/84.

PO -CH /NL/0062

PART A

PO -CH /NL/0062 PART A

Chancellor's (Lawson) Papers:

PUBLIC EXPENDITURE WHITE PAPER 1984

Disposal Directions 25 Years

[illegible]

21/7/95

Wed box

FROM: MISS M KING

DATE: 5 January 1984

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr Middleton
Sir T Burns
Mr Bailey
Mr Anson
Mr Watson
Mr Hart
Ms Seammen
Mr I Webb

1984 - PUBLIC EXPENDITURE WHITE PAPER - PART I

In your minute of 19 December you said that the Chancellor had queried a phrase in the social security paragraphs in the first draft of Part I. The phrase was "the higher uprating assumptions for 1984 and 1985."

2. In subsequent drafts a substitute phrase has been used: "the effect of changes in the uprating assumptions for 1984 and 1985". This leaves the reader to imply from the context that the assumptions are higher but avoids drawing attention to it.

3. You may find it helpful to have some background information for the record.

4. In the last PEWP the uprating assumptions for 1984-85 and 1985-86 were based on the provision for price changes in 1984-85 in the revaluation from volume to cash in the 1981 survey (5 per cent) and on the factor used to generate the survey baseline for 1985-86 in the 1982 survey (4 per cent). These financial year averages were used for social security benefits as "illustrative assumptions" about price rises in years ending in November. The factor used in each survey to extend the baseline a further year may be the same as the forecast change in the retail price

index (RPI) or it may differ, for example to contain an element of volume squeeze.

5. In 1983 it was decided to change the uprating procedure, which applies to a substantial proportion of benefits, to have regard to the movement in the (RPI) in the year ending in the May preceding the uprating. In the 1983 survey it was agreed that the uprating assumptions for social security should reflect the change and also be based on a reasonably realistic and up to date forecast of May on May changes in the RPI.

6. The autumn 1983 economic assumptions show financial year averages for the RPI at the same level in 1984-85 and 1985-86 as the uprating assumptions in last year's PEWP. When the RPI is falling a May on May average will be higher than a financial year average. Thus there is a basis for saying that the higher uprating assumptions in this year's PEWP are due to the change in the method of uprating. But we have not suggested using this explanation in the PEWP because it is not strictly true.

MK

MISS M KING

LK57

PERSONAL AND CONFIDENTIAL

John
as far as we're concerned,
this is pretty optimistic!
M.

FROM: A M BAILEY
DATE: 6 January 1984

MISS O'MARA

cc Sir P Middleton

BRIEFING ON PUBLIC EXPENDITURE

Thank you for your minute of 29 December, on the briefing for the E(A) meeting on YTS.

2. As agreed, I have reminded people on my side about the need to ensure that the key public expenditure points are clearly summarised on the face of briefing for Treasury Ministers on complicated issues for collective discussion.

3. One point was made arising from this: Whenever possible we try to put up briefing a couple of days before the meeting - this should not only allow the Chief Secretary to have a supplementary oral briefing session if he wishes, but also make it possible for Treasury Ministers to sort out any differences from the line in the brief. But we can only ensure that the line is approved by the Chancellor, as well as the Chief Secretary, if Private Office shows him the brief a day or two ahead, and not just the night before the meeting. (In the YTS case, we had of course done our best to avoid this problem by putting up a preliminary submission some weeks earlier.)

4. I know very well how difficult it is to marshall priorities in sending boxes of papers to the Chancellor, given all the calls on his attention. But it would reduce the risk of further trouble in this crucial area if you could try not to hold back this kind of briefing when it arrives ahead of time.

AMB

A M BAILEY

Chancellor
I hope this will serve as a basis for tomorrow's discussion (Table 2 projected totals now about 1% higher) AMW 9/1

COPY 1 OF 6 COPIES

FROM: M C SCHOLAR

9 January 1984

MR BAILEY

cc attached for Chancellor of the Exchequer
Chief Secretary
Sir Peter Middleton
Sir Terence Burns

LONG TERM PUBLIC EXPENDITURE

1. I attach a draft paper which presents the results of the study of public expenditure in the longer term which we have been carrying out in the expenditure side of the Treasury. The present draft owes much to a draft prepared by Mr David Robinson, an AT who spent a highly useful month in GEP1 before his posting to UKTSD Washington. If you are content, it should go forward to the Chancellor and Chief Secretary tonight, so that they can discuss it with us at tomorrow's meeting.

2. The draft at present lacks Annex B, which will set out the assumptions underlying the projections by programme. This is in preparation and should be available in a few days.

3. At the moment the paper comes to a rather shapeless end, because it lacks any material on financing public expenditure. I understand that Sir Terence Burns will be providing some material on which a section on these issues could be based. When we have it, and when we know how the Chancellor wishes it to be put together with the expenditure study, we will clearly need to revise the present draft extensively.

(also y/e & pay variants)

4. The Chancellor has also mentioned the possibility of projecting a further set of variants - as between a tougher and a less tough expenditure stance within the central case. To provide these we should need to consult expenditure divisions again. I do not believe that this would be difficult nor need take long. We await further instructions on this point.

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5. In the interests of security, I have shown this work to a very restricted circle within the Treasury. I apologise therefore in advance for any errors lurking in the study of the kind which would be spotted by the normal process of clearance with divisions.

MCS

M C SCHOLAR

COPY 1 OF 6 COPIES

DRAFT

THE PROSPECTS FOR PUBLIC EXPENDITURE IN 1992-93

INTRODUCTION

1. This paper presents the results of an internal Treasury study of the prospects for public expenditure in 1992-93. It both extends and updates the previous work done in conjunction with departments last year.

2. The study provides projections of how public expenditure, in total, by programme, and as a proportion of GDP, might look in 1992-93, ten years ahead of the base year for the projections, 1982-83 (the latest year for which we have a reasonably firm outturn). The projections rest on a series of economic and public expenditure policy assumptions, which are set out in the study. They also rest on a series of judgements, which we have also attempted to display, of the likely effects of demographic, technological and other changes in public expenditure programmes. The projections are of expenditure in 1992-93 and do not attempt to trace a path for the intervening years.

ws PO SP/ PBX

3. The objective of the study is to provide a better basis for the planning and control of public expenditure than can be achieved by reliance on the Public Expenditure Survey alone. The Survey, as a decision-making process, inevitably focusses on the relatively near future - at maximum, on current practice, three years ahead. But, to put these three years into better perspective, it is desirable to have a picture of what the more distant future may hold in store - although, inevitably, such a picture must be highly uncertain and tentative. A further objective for the study, if it is published, is to contribute to a

better-informed public discussion of the prospects for expenditure and for taxation.

3. The results of the work are summarised in Tables 1 to 4.

METHODOLOGY

Economic assumptions

4. We have projected public expenditure forward against three economic scenarios for the next decade. The central case (M) is of GDP growth averaging 2 per cent a year; unemployment down to $2\frac{1}{2}$ million by 1992-93; the inflation rate falling to 3 per cent and real interest rates of $2-2\frac{1}{2}$ per cent from 1987-88 onwards; and real wage increases of 1 per cent a year for both the market and the public sector from 1982-83. The study is focussed upon this central case. But projections are also provided for lower and higher GDP growth variants (L and H), with corresponding assumptions for unemployment, productivity and real wage increases. The assumptions are set out in detail in Annex A.

Relative price effects

How about \$?

5. If the price basis of one programme, or of one part of a programme (eg pay), rises at a different rate from that of other programmes or other parts of the same programme, there is in principle a relative price effect (RPE). We have taken account of three RPEs: pay/non-pay, which affects almost all programmes; imports/domestic production, due to the assumed depreciation of the effective exchange rate (see paragraph 12 below); and a non-pay health RPE, reflecting the worldwide trend in health care costs.

Income effects

6. Higher real GDP may increase the public's demand for Government services, and, because more taxable capacity is available, may make the Government more

ready to supply additional public services. The impact of such 'income effects' cannot be determined exactly: but they are certainly important. The details of the income effects assumed on each programme are shown in the programme annexes. The more important ones are: [Imp. Govt question] [whether public pressure?]

(a) Social security

?

In the lower growth variant, we have assumed that benefits would rise in line with prices. In the central and higher growth cases we have allowed for growth in benefits more in line with earnings: a ½ per cent annual real increase in the central variant, and a 1 per cent annual real increase in the higher variant.

(b) Health

?

In the lower variant we have assumed the Government would provide a 1 per cent annual real increase, just a little more than the ¾ per cent needed to cover demographic change. In the central case we have allowed for 1½ per cent real annual growth and in the higher variant 2½ per cent real growth, to reflect the increased resources available to meet demand, and likely to be demanded.

(c) Defence

Status?

We have assumed that after 1985-86 defence expenditure would increase by ½ per cent a year in real terms in the lower variant, 1 per cent in the central case, and 2 per cent in the higher variant. 0

7. Income effects do not always increase expenditure (though in aggregate they do). For instance, housing expenditure falls with GDP growth, partly reflecting people's greater ability to provide for themselves.

Judgments

8. As far as is possible, we have assumed that the Government's policies continue broadly unchanged up to 1992-93. Clearly, over such a long period,

this has involved a large number of interpretative judgments. Again, these are detailed in the annexes, but some of the more important ones are:

(a) On nationalised industries' EFLs, three possible variants are considered, depending on the pace of the privatisation programme and progress towards economic pricing: these variants cut across the three GDP growth variants, and suggest an aggregate EFL in a range between +£1.75b and -£2.5b. The point estimate adopted in our tables is £0, and we have taken account of the range in the contingency reserve;

(b) We assume only very limited Government support for industry in 1992-93 (no support at all for shipbuilding, steel and vehicle manufacture, and no new major aerospace launch aid);

!

(c) When large projects fall out of programmes (eg the Thames barrier and the prison building programme) we have not invented new projects to take their places;

(d) No new major capital investment programme, for example on public sector housing (an 'employment-creating' programme was included in the low growth variant of the 1982 study);

(e) Local authority rents to rise in line with real wage increases, but no higher;

(f) The Youth Training Scheme to become comprehensive for 16-18 year olds, the Enterprise Allowance to expand, but Community Industry, the Young Workers' Scheme and the job splitting schemes to come to an end;

(g) The Urban programme to remain at its 1984-85 level;

!? (h) Some containingment of the cost of the Common Agricultural Policy, and the EEC contribution held at 0.2 per cent of GDP;

(i) Some move on overseas aid towards the UN 0.7 per cent of GDP target.

Creep and the Contingency Reserve

9. In the past, the planning totals for future years have shown an inexorable tendency to be revised upwards in successive years - the phenomenon called 'creep'. Insofar as creep cannot be contained within the contingency reserve, it represents planning failure.

10. To include an explicit allowance for creep by adjusting either individual programmes or the planning total would be not only to admit planning failure in advance, but also to provide an estimate of its degree. In this area the past is not necessarily a good guide to the future, and we mean to do better in future years.

11. But it would be rash to make no allowance for the uncertainties of the next decade, including creep, at all. We have therefore provided for a contingency reserve of twice the normal size, about 4 per cent of the planning total. This should allow an adequate margin, while not being so large as to cast doubt on the validity of the individual programme totals themselves.

12. In addition, the contingency reserve is designed to be adequate to cover the additional expenditure, spread across programmes, arising from the import/domestic RPE (ie from the fact that, since the real exchange rate is assumed to fall 12 per cent over the decade, procurement programmes will face higher prices than assumed in the GDP prices index which underlies these projections); and for a somewhat higher level of capital spending in 1992-93 than in the base year as a result of the introduction of end-year flexibility.

RESULTS

13. The results are set out in Tables 1 to 4. Table 1 shows the projected expenditure in each variant in cost terms; Tables 2 and 4 show the programmes as a percentage of GDP; and Table 3 shows the programmes as percentages of total expenditure in 1978-79, 1982-83 and 1992-93.

14. In all three scenarios the planning total increases above the 1982-83 level in real terms. In the central case the planning total is projected to increase by 1.6 per cent a year between 1982-83 and 1992-93: as a percentage of GDP it falls from 40.3 per cent to 38.6 per cent. In the lower growth variant, the planning total increases by 1.1 per cent a year, and rises very slightly as a percentage of GDP to 40.6 per cent. In the higher variant, the planning total increases by 2.2 per cent a year but falls to 37.1 per cent of GDP.

15. The projected growth rates in the planning totals are reasonably consistent with previous experience. The 1.6 annual growth rate implied in the central scenario, for instance, is about the same as the actual public expenditure growth rate since 1978/79 (1.5 per cent per annum), and a little higher than the actual rate since 1973-74 (1.3 per cent per annum).

16. These results are of course no more reliable than the hazardous assumptions on which they are based. Each £1b on the planning total adds about 0.3 per cent to the ratio of the planning total to GDP. If the planning total in the central case were only 5 per cent or some £6b higher, (creep of less than ½ per cent per year) it would <u>increase</u> as a percentage of GDP over the decade.

[Paragraph on the effect on the total of varying unemployment by $\frac{1}{2}$ million upwards or downwards and of raising real public sector pay growth up to the level of GDP growth.]

17. Most programmes are projected to increase in real terms over the next decade; but, of these, most fall as a percentage of GDP, with the exceptions of health and law and order. There are reductions in industrial support, nationalised industry finance, common services and (on the central and lower variants), housing and education.

18. The basis in detail, by programme, for the projections is set out in Annex B.

Comparison with 1982 exercise

19. Table 5 compares the results of this study with those of the 1982 (leaked) exercise. There are, of course, considerable differences between the two studies: neither the economic assumptions, nor the period covered, are the same, and the present study is based on more recent data and reflects policy changes in the 1982 and 1983 Surveys. The 1982 exercise assumed, for example:

(a) GDP growth of $\frac{1}{2}/\frac{3}{4}$ per cent a year (low variant), and of $2\frac{1}{2}$ percent a year (high variant);

(b) the continuation of the 3 per cent NATO defence commitment to 1988-89;

(c) a defence non-pay RPE of 2 per cent a year (which MOD used against us in the 1982 Survey);

(d) a substantial programme of capital expenditure on housing to create employment in the low growth case;

(e) a large positive aggregate EFL for nationalised industries (0.8 per cent of GDP).

20. [paragraph on debt interest projections and their effect on the GDP percentages]

Further work and publication

21. The projections are the outcome of several rounds of discussion within the Treasury. But there has been no discussion of the study as a whole with Treasury divisions, and no consultation with Departments, who would need to consider the figures in detail before publication. Although this process may be expected to result in changes to a number of the programme totals, we have no reason to expect a significantly different overall outcome to the study. It must be recognised, however, that such a widening of the circle of those who have seen the study as a whole would be likely to lead to rapid leaks of the main conclusions.

22. Disclosure of the study to Departments is likely also to do some damage to the Treasury's negotiating position - for example with the Ministry of Defence and the DHSS given our assumption of real growth in the defence/health and social security programmes, and with the public sector unions, given our assumption of real growth in public sector pay, in step with that in the market sector. There is also much political awkwardness in publishing a study which contains the assumption, however qualified, that unemployment will remain at 3 million in 1993.

23. Public and Parliamentary pressures to publish this study are likely, however, to prove irresistible. We shall therefore be involved in a damage-limitation exercise, which will mean careful presentation of the study as a whole, within and outside the Government.

Relationship with the Public Expenditure White Paper

24. One area in which we shall need particular care in presentation is the relationship between this study and the Public Expenditure White Paper. Table 6 compares the annual growth rates of programmes between 1982-83 and 1986-87 implied by the White Paper with those implied after 1986-87 by the present study taken together with the White Paper. We would, of course, protest vigorously against any such comparison, arguing that it was methodologically unsound, since our 1992-93 projections are 10-year projections and avowedly imply no particular path from their base year. But the comparisons would, nevertheless, be made, and it would be said that for every programme - with the exceptions of defence, social security and other public services - we were expecting a higher growth rate after 1986-87 than before; and, in total, a public expenditure growth rate of over 2 per cent a year after 1986-87 compared with the PEWP's annual growth rate of around ½ per cent a year starting from 1982-83

2% growth 1986-87 – 1992-93?

Wider issues

25. Because the study does not go beyond 1992-93 it ignores a number of problems which will become acute only after that year - notably the burden of earnings-related pensions (which becomes very large by 2010 and 2020), and possible further demands, with further increases in prosperity, for state-provided services, To extend the time-horizon of the study, however, to take in such problems would impossibly stretch the plausibility of the majority of the projections. We rejected, therefore, the idea of going out beyond ten years.

26. As soon as the study is published, the Government will be asked if it is satisfied with the prospects. One conclusion would be that it is most

unsatisfactory to envisage public expenditure taking the same share of GDP in 1992-93 as ten years earlier, particularly in view of the implications for the non-North Sea tax burden. If so, we shall be asked what policy changes we propose to remedy the situation. No doubt it will be possible for a time to argue that what is first needed is a period of informed debate, to test the validity of these projections, but it will not be long before the Government is pressed to say, as it was in 1982 and 1983, which options are ruled out and which are worth considering. We need to consider if it would be a major tactical error to set in hand work, as we will be urged to do, on what our options for reductions are to be.

TABLE 1

PUBLIC EXPENDITURE (£m 1982-83 cost terms) TABLE 1

	1973-74	1978-79	1982-83 (outturn)	1992-93 L	1992-93 M	1992-93 H
Defence	11941	12180	14408	16120	17075	18720
Overseas and other O.S.	2098	2997	2163	2500	2600	3200
Ag. Fisheries, Food, Gr	1551	1269	1811	2012	2022	2032
Industry, Energy, Trade, Empl; excl. grants to NI	8036	4559	4917	4100	4014	3681
Transport (excl. grants to NI)	4435	3084	3524	3826	4221	4655
Housing	6280	5802	2640	3000	2600	2200
OES	4172	3194	3297	3500	3500	3500
Law, Order and PS	2929	3305	4191	5048	5346	5658
Education & Science	13077	12599	12740	11347	12347	13484
Arts and Libraries		553	598	639	706	778
Health & PSS	10210	12065	13817	16300	18300	21200
Social security	20164	26707	32485	36870	37720	38439
OPS	1426	1569	1631	1525	1598	1673
Common services	1278	1386	1560	1102	1145	1191
Territorials	10587	11749	12011	12980	13840	14945
NI ext. finance	3154*	3817	2087	0	0	0
Asset sales	0	–	– 488	–50	–50	–50
Contingency Reserve etc	–	–	–	5000	5000	5000
PLANNING TOTAL	101338	106834†	113384†	125,819	131,984	140306

* understates total: remainder included in programmes.

† column does not sum precisely due to rounding.

PUBLIC EXPENDITURE AS % GDP

TABLE 2

TABLE 2

	1973-74	1978-79	1982-83 (outturn)	1992-93		
				L	M	H
Defence	4.6	4.4	5.1	5.2	5.0	4.9
Overseas and other O.S.	0.8	1.1	0.8	0.8	0.8	0.8
Ag. Fisheries, Food, Fr	0.6	0.5	0.6	0.6	0.6	0.5
Industry, Energy, Trade, Empl; excl. grants to NI	3.1	1.6	1.7	1.3	1.2	1.0
Transport (excl. grants to NI)	1.7	1.1	1.3	1.2	1.2	1.2
Housing	2.4	2.1	0.9	1.0	0.8	0.6
OES	1.6	1.1	1.2	1.1	1.0	0.9
Law, Order and PS	1.1	1.2	1.5	1.6	1.6	1.5
Education & Science	5.1	4.5	4.5	3.7	3.6	3.6
Arts and Libraries		0.2	0.2	0.2	0.2	0.2
Health & PSS	4.0	4.3	4.9	5.2	5.3	5.6
Social security	7.8	9.6	11.5	11.9	11.0	10.1
OPS	0.6	0.6	0.6	0.5	0.5	0.4
Common services	0.5	0.5	0.6	0.4	0.3	0.3
Territorials	4.1	4.2	4.3	4.2	4.0	4.0
NI ext. finance	1.2	1.4	0.7	0	0	0
Asset sales	0.0	–	-0.2	0	0	-0.01
Contingency Reserve etc	–	–	–	1.6	1.5	1.3
PLANNING TOTAL	39.4	38.5	40.3	40.6	38.6	37.1

PROGRAMMES AS PERCENTAGES OF TOTAL EXPENDITURE*

TABLE 3

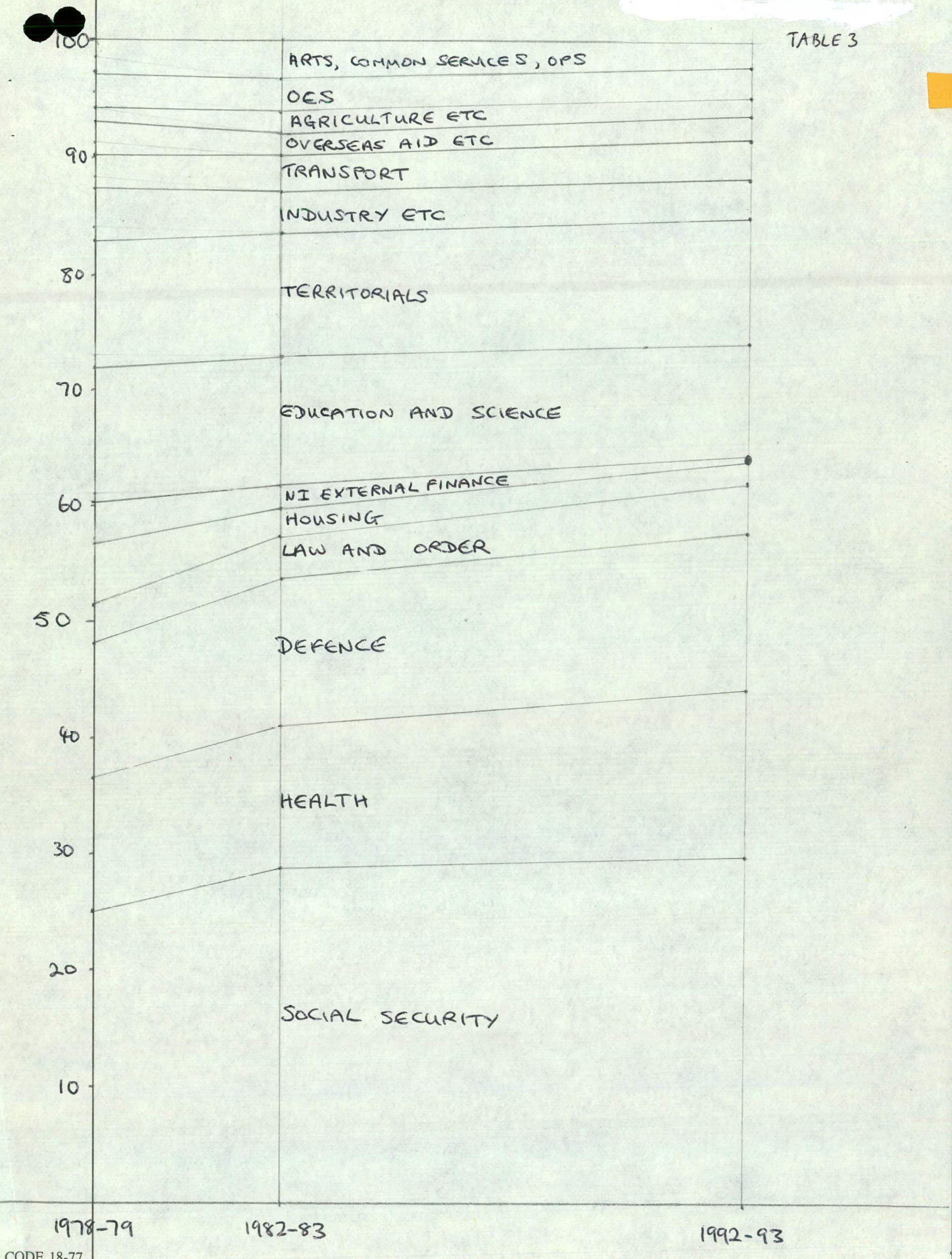

TABLE 3

*planning total excluding contingency reserve in 1992-93.

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HP 4/83

Reference ....

TABLE 4

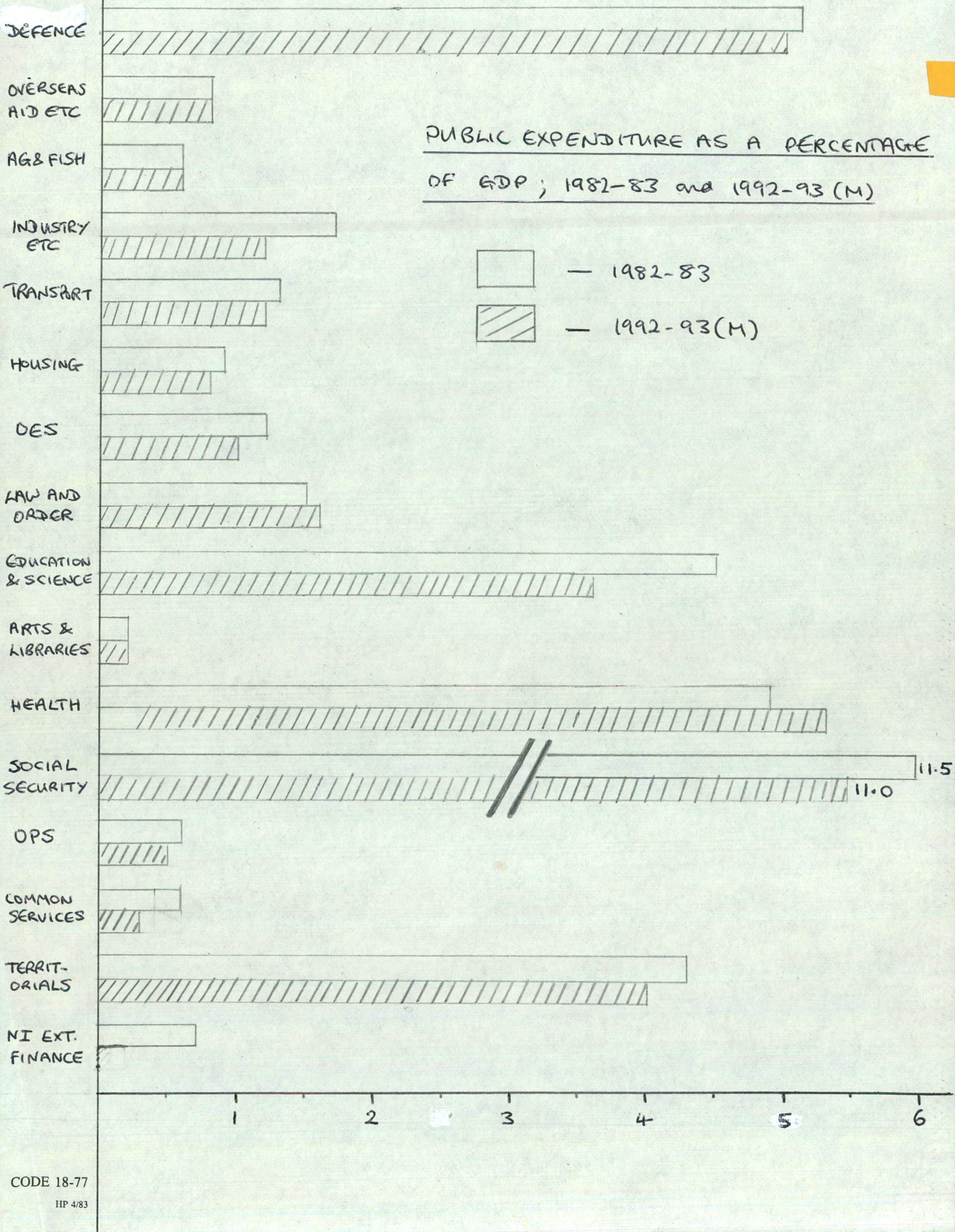

TABLE 4

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NOT TO BE COPIED SECRET TABLE 5

TABLE 5

PUBLIC EXPENDITURE PROJECTIONS (% GDP)

	1982-83 (est. outturn)	LTPE (82) 1990-91 (update in parenthesis)		LTPE (83) 1992-93		
		B (low)	A (high)	low	central	high
Defence	5·1	6·7 (6·4)	5·6 (5·3)	5·2	5·0	4·9
Overseas Services	0·8	0·8	0·9	0·8	0·8	0·8
Agriculture, F.F.&F.	0·6	0·6	0·5	0·6	0·6	0·5
Industry, Trade, Emp, etc. (ex. grants to NI's)	1·7	1·8	1·4	1·3	1·2	1·0
Transport (ex. grants to NI's)	1·3	1·2	1·2	1·2	1·2	1·2
Housing	0·9	2·2 (2·1)	1·2 (1·0)	1·0	0·8	0·6
Other Environmental S. (ex. grants to RWA)	1·2	1·2	1·0	1·1	1·0	0·9
Law, Order and P.S	1·5	1·6	1·4	1·6	1·6	1·5
Education and Science	4·5	} 4·2	} 3·5	3·7	3·6	3·6
Arts and Libraries	0·2			0·2	0·2	0·2
Health and PSS	4·9	5·4	4·8	5·2	5·3	5·6
Social Security	11·5	11·1 (12·1)	9·7 (10·5)	11·9	11·0	10·1
Other Public Services	0·6	0·5	0·4	0·5	0·5	0·4
Common Services	0·6	0·4	0·4	0·4	0·3	0·3
Territorials	4·3	4·5	3·7	4·2	4·0	4·0
Nationalised Industries External Finance	0·7	0·8 (0·2)	0·7 (0·2)	0	0	0
Asset Sales	-0·2	–	–	–	–	–
Contingency Reserve etc.	-0·2	0·9	0·7	1·6	1·5	1·3
PLANNING TOTAL	40·3	43·8	37·0	40·6	38·6	37·1

TABLE 6

	PEWP implied annual growth rate 1982-83 to 1986-87*			annual implied growth rate 1986-87 to 1992-93 L	M	H
Defence	2.3			0.3	1.3	2.9
Overseas and other O.S.	0.0			2.4	3.1	6.7
Ag. Fisheries, Food, Gr	-2.8			3.7	3.8	3.9
Industry, Energy, Trade, Empl; excl. grants to NI	-4.5			-0.1	-0.4	-1.9
Transport (excl. grants to NI)	-2.3			3.1	4.8	6.7
Housing	-3.6			4.7	2.2	-0.6
OES	-3.6			3.5	3.5	3.5
Law, Order and PS	1.4			2.2	3.2	4.2
Education & Science	-2.0			-0.6	0.8	2.3
Arts and Libraries	-3.5			3.6	5.3	7.0
Health & PSS	1.0			2.1	4.1	6.7
Social security	2.1			0.8	1.1	1.5
OPS	-0.2			-1.0	-0.2	0.6
Common services	-8.7			0.2	0.9	1.6
Territorials	-0.5			1.7	2.8	4.1
NI ext. finance						
Asset sales						
Contingency Reserve etc						
PLANNING TOTAL	0.6			1.5	2.2	3.2

*Deflators 83-84 1.050; 84-85 1.045; 85-86 1.040; 86-87 1.035; 1.1811

TABLE 6

ANNEX A

ANNEX

ANNEX A

ECONOMIC ASSUMPTIONS FOR LONG TERM PUBLIC EXPENDITURE EXERCISE

	L Lower growth variant	M Central case	H Higher growth variant
GDP (average growth rate, 1982-83 to 1992-93)	1%	2%	3%
Productivity in market sector (Average growth rate, 1982-83 to 1992-93)	$\frac{3}{4}$	$1\frac{1}{2}$	$2\frac{1}{4}$
Unemployment (narrow definition, excluding school leavers, in 1992-93)	3 m	$2\frac{1}{2}$ m	2 m
Inflation Rate (GDP deflator at factor cost)		3% from 1987-88 onwards	
Real interest rates		short term: 2%) from 1987-88 long term: $2\frac{1}{2}$%) onwards	
Real effective exchange rate (in 1992-93: 1982-83 = 100)		88	
Real market sector wages (average % change from 1982-83	$\frac{1}{4}$	1	$1\frac{3}{4}$
Real public services wages (average % change from 1982-83)	$\frac{1}{4}$	1	$1\frac{3}{4}$

Inske to Alan Bailey
MGM 16/1

CONFIDENTIAL

FROM: JOHN GIEVE
DATE: 10 January 1984

Rott

[PS8 Ensure that no decision is taken on X - about which I have grave reservations [consider the presentational work (MOD) - without much consequence]

MR DONOVAN

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
COGPEC
Mr A Russell - FMU

PUBLIC EXPENDITURE WHITE PAPER - Parts 2 and 3

The Chief Secretary has approved the circulation to colleagues of Parts 2 and 3 of the White Paper under cover of the letter broadly on the lines you submitted on 5 January.

2. He is most grateful for the work you and the rest of GE and the Expenditure Divisions have put in to improving the presentation and content of the White Paper this year. He would like to discuss with officials during the course of this year whether further improvement might be made by next year. He wonders, in particular, whether a single comprehensive volume over the whole area of public expenditure - on the lines of the present Parts 2 and 3 - is the best format or whether it might be possible to

X? move towards a single Treasury White Paper on the lines of Part 1 supplemented by departmental reports, cleared with the Treasury, but issued by the appropriate Ministers. He understands that GE have been given some thought to these questions already.

3. Finally, he wishes to discuss further with PE and GE whether tables 3.3a and 3.4a from last year's White Paper should be included. He assumes that these can be added, if necessary, at a later stage. I have therefore deleted the relevant paragraph from the covering letter.

JG

JOHN GIEVE

CONFIDENTIAL

12/12

John
Andrew was asking about this so we've sent him a copy. You might like to be aware yourself.
M

From: Mrs Todd
11 January 1984

MISS M O'MARA

cc Mr Scholar
Mr Hart
Mr Stibbard

RATIOS OF PUBLIC EXPENDITURE TO GDP

Mr Stibbard asked me to reply to your minute to him of 10 January on the above.

2. May I draw your attention to the article entitled "Public Expenditure: Definitions and Trends" in the November issue of Economic Trends. This includes the series that No 10 require. I attach a copy of a table from the article with the appropriate column marked.

3. This series will alter marginally as the planning total and net debt interest will alter in outturn years in the White Paper. We do not yet have final figures for the revised series. But the ratios should not alter when rounded to the nearest half.

Philippa Todd.
P TODD

Miss O'Mara

cc Mr Scholar
Mr Hart
Mr Stibbard

Latest projections are for public expenditure to GDP percentages of 42½ and 42 per cent in 1983-84 and 1984-85 respectively. These are from the Autumn Statement and therefore refer to planned public expenditure in both years. The 1984 public expenditure White Paper will contain estimated outturn in 1983-84 so the 42½ per cent figure for that year may alter. (No final White Paper figures are yet available.)

Philippa Todd. 12/1

NOVEMBER ECONOMIC TRENDS

APPENDIX

Public expenditure 1963-64 to 1982-83

TABLE 1a

£ billion	Definition prior to February 1977 *(Cmnd 6721)*			February 1983 *(Cmnd 8789)* Definition excluding PCMOB[4]			February 1983 *(Cmnd 8789)* Definition		
	Cash	1981–82 cost terms[1]	Percentage of GDP[2]	Cash	1981–82 cost terms[1]	Percentage of GDP[3]	Cash	1981–82 cost terms[1]	Percentage of GDP[3]
1963–64	11.9	68.5	*38.5*	9.9	57.1	*34.0*			
1964–65	12.8	70.7	*38.1*	10.8	59.6	*33.9*			
1965–66	14.2	74.9	*39.5*	12.0	63.4	*35.1*			
1966–67	15.7	79.3	*41.0*	13.3	67.3	*36.3*			
1967–68	17.9	87.7	*44.0*	15.5	76.3	*39.9*			
1968–69	18.8	88.2	*42.9*	16.1	75.6	*38.2*			
1969–70	19.8	88.1	*42.1*	17.0	75.8	*37.5*			
1970–71	22.2	91.5	*42.8*	19.1	78.4	*37.7*			
1971–72	24.6	92.7	*42.2*	21.4	80.7	*37.6*			
1972–73	28.3	98.4	*43.0*	24.8	86.4	*38.5*			
1973–74	33.8	109.8	*46.2*	28.6	92.7	*39.9*	29.3	95.0	*40.9*
1974–75	45.6	124.1	*52.0*	38.6	105.1	*45.0*	39.3	107.0	*45.8*
1975–76	57.1	123.7	*52.1*	48.5	105.1	*45.4*	48.9	106.0	*45.8*
1976–77	63.7	122.0	*49.9*	53.2	101.9	*43.0*	54.4	104.1	*43.9*
1977–78	67.7	114.0	*45.8*	56.0	94.2	*39.3*	56.8	95.6	*39.8*
1978–79	78.2	119.2	*46.5*	65.3	99.6	*40.4*	65.8	100.2	*40.7*
1979–80	93.0	121.3	*46.3*	77.4	101.0	*40.6*	76.9	100.4	*40.3*
1980–81	112.7	123.9	*49.0*	93.4	102.6	*42.9*	92.8	102.0	*42.6*
1981–82	124.1	124.1	*49.4*	104.4	104.4	*44.1*	104.7	104.7	*44.2*
1982–83	137.4	128.9	*49.5*	114.7	107.5	*43.8*	113.4	106.4	*43.4*

[1] Cash deflated using GDP deflator, base year 1981–82 = 100.
[2] Defined as total public expenditure plus general government consumption of non-trading capital divided by GDP (expenditure estimate) at market prices. The definition of total public expenditure prior to Cmnd 6721 included payments of VAT by local authorities and gross debt interest.
[3] Defined as the planning total plus general government consumption of non-trading capital plus payments of VAT by local authorities plus net debt interest divided by GDP (expenditure estimate) at market prices.
[4] Public corporations market and overseas borrowing.

projections
(1983 Autumn Statement)

1983-84 planned . $42\frac{1}{2}$

1984-85 planned 42

FROM: A M BAILEY

DATE: 18 January 1984

CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monger
Mr Hart

LONG-TERM PUBLIC EXPENDITURE AND TAXATION

You may be asked in Cabinet tomorrow about the thoroughly unhelpful piece by Peter Hennessy and Sarah Hogg on page 1 of today's Times (and the accompanying leader) on the publication or otherwise of long-term public spending plans. I suggest you might make the following points in response:

i. You will in any case need to publish at Budget time an MTFS projected ahead at least to 1986-7, and perhaps further. ~~further than last year's 3-year span - it has been 4 or 5 years in the past, and you have in mind 5 years.~~ I wouldn't say that yet No.

ii. You ~~would like to publish~~ are considering publishing at the same time, as background to the MTFS and as a contribution to public debate, projections for tax revenues and public expenditure over the next decade. These would suggest reasonable targets for reducing the tax burden and show what these would imply for public expenditure.

iii. There is no "dilemma" about this, but it is a difficult matter of judgment to decide what targets to propose, given the pressures for increased spending in the longer term (ie beyond 1986-87 for which plans are agreed and will be published in the White Paper).

iv. Clearly before any such projections and targets can be published they will need to be discussed endorsed by Cabinet. You have it in mind to circulate a paper for the Cabinet which is to consider economic prospects pre-Budget, and the capital/current split in public spending (9 February).

LTPE "Times" story

iv. (If pressed) It is wrong to suggest (as in the Times leader) that "data" on long-term spending prospects for individual programmes could be produced without any "technical" difficulty. The leaked 1982 exercise showed how uncertain these longer term projections of programmes are bound to be, requiring shaky assumptions about policy responses as well as economic variables (eg how much real growth in pension levels by 1993-94?)

2. In my view this would be a reasonably safe outline of the approach you have discussed with us. But it is not free of difficulties (eg the assumptions for output growth, productivity/employment/unemployment, and real earnings, as well as the choice of tax target). You will want to avoid any absolutely firm commitment, even to colleagues, before you have considered revised figures in more detail (and we are aiming to submit an early draft Cabinet paper within about a week). No doubt you will also consider how far it is necessary to clear this line with the Prime Minister beforehand.

Done today, I think.
JG

AMB

A M BAILEY

The Government is supporting a private member's Bill to allow betting shops to install television and radio sets and video recorders and serve non-alcoholic drinks Page 3

Rates cut

Birmingham City Council has agreed to a cut in its rates of 5p in the pound, or 4.5 per cent, on last year's rates. It also reduced its rates last year.

Murder contract

A convicted killer has told a murder trial that the defendant agreed to pay him £10,000 to "get rid of" another woman Page 3

Second sex

Women are being elbowed out of jobs in Europe by men and the situation is getting worse. Women in America are also losing the jobs battle Page 6

Bundestag test

West Germany's Defence Minister could be forced to resign if he fails to prove to the Bundestag today that General Kiessling engaged in homosexual activities Page 7

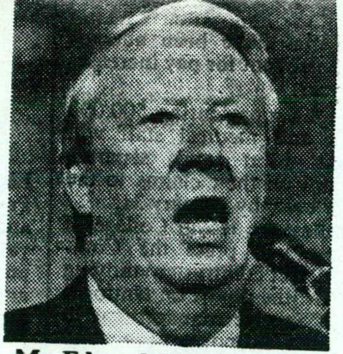
Sterling slips

Renewed strength in the dollar and reports of a Nigerian oil price cut, later denied, sent the pound falling 95 points to close at $1.4110 Page 15

Consultation, cooperation and coordination were the watchwords", he recalled in a lecture to the Foreign Exchange Dealers' Association in the City.

"But now that continuity has been broken. On both sides of the Atlantic there are governments who believe it natural and right to go their own way and devil take the hindmost: a national, selfish and often self-defeating view.

"Britain has suffered a recession deeper than any of her OECD partners. This has been due in part to policies deliber-



Mr Edward Heath speaking at Guildhall last night

that they were in many cases motivated by an unremitting hostility to the State rather than arguments about efficiency and savings.

But the burden of his speech was economic: an appeal for Britain to lead the way to an internationally coordinated strategy for revival.

Mr Heath said that the alternative to a productive community was a society which was interested in earning interest.

The Government, in its efforts to control money supply, had repeatedly raised interest Continued on back page, col 6

Lawson's spending dilemma

By Peter Hennessy and Sarah Hogg

The Chancellor of the Exchequer is preparing to publish part of his review of public spending plans into the 1990s at the time of his Budget on March 13. But Mr Nigel Lawson and his Cabinet colleagues appear to be moving against publication of the full projections of expenditure on the main public services and the tax levels needed to finance them.

Although the Government wants to open up the debate on rising trends in public spending and possible alternatives, it is uneasy about the political effect that those detailed projections might have.

They reveal, for example, the cuts that might have to be made in other services to make room for mounting defence and social security bills. They would also make clear how difficult it will be for the Government to cut taxes.

The Treasury is determined to make it the last Budget to take place in March, as it has done for the past four years.

Early Budgets become popular with the Government as a means of increasing tax revenue, since increases in duty on alcohol and petrol, for instance become effective immediately, while cuts in income tax do not take effect until the start of the new year.

But that advantage, thought to be worth about £50m this year, is now considered small in comparison with the disadvantage of producing a Budget before all the bills are in for the previous year.

Early Budgets mean the Treasury is forced to guess at the final outcome for public spending and borrowing, and it has proved awkwardly bad at this.

Final figures published only a few weeks after the Budget have proved the Treasury to be as much as £2,000m wrong in its estimate of the politically important public-sector borrowing requirement.

This year a late Easter made it difficult to find a suitable date for the Budget in April. But a run of helpful Easters over the next few years has convinced the Treasury it can avoid a repeat of this year's embarrassment: the Chancellor will still be quite uncertain on Budget day whether the Government has needed to borrow £8,000m or £10,000m during the 1983-84 financial year.

Leading article, page 11

however, the register by-ele called for th March. That poll on March

Mr Benn ye to Chesterfield strategy meet

While it is the poll coul March 8, it is

Jagu abo

A Jaguar a directly above Chemical De ment yesterday few hundred germ and chem dangerous dise tres.

The pilot, sti ejector seat, lan roof of the medical centre Wiltshire. He hospital, but w hurt.

The crash pro ate calls for flying over Por Mr Robert Key tive MP for Sa could have b disaster".

The £5m Jagu the Ministry of curement Execu at the Empire School within th armaments establishment Down, near by.

It is understoo on a routine f heading back

Jinx on Derby winners strikes again

Golden Fleece, the 1982 Derby winner, who stands at the Coolmore Stud in Ireland, has undergone a major stomach operation. However, a spokesman for the stud said that the surgery had been 100 per cent successful and that Golden Fleece would be ready to resume his stallion duties shortly after the start of the covering season on February 14.

This setback for Golden Fleece, who is valued at between £16m and £18m, follows the kidnapping of Shergar, who won the Derby in 1981, and the death of Troy, who won in 1979. Page 17

Royal homes may get co

By John Witherow

Buckingham Palace is considering linking the royal households by a computer network as part of a policy of using new technology to manage the multi-million pound business of the Royal Family. The scheme includes using standard menus and menu costing for catering on state occasions.

According to the Civil List, which gave the first detailed breakdown of royal expenditure for a decade, the palace has spent £133,000 during the past two years on a computer and word-processors. If Kensington Palace, Windsor Castle and Holyroodhouse were "networked" it would mean another big outlay of capital.

"We are not sitting here with feather quills and leather ledgers," one senior official at the palace said. "We are determined to stay up with high technology.

"The system is very efficient and cost-effective. From the accounting point of view it is producing results more quickly, which is better for our creditors. The changes will not lead to any redundancies, but when staff retire it could mean they will not be replaced."

At present, a Burroughs 930 mini-computer handles all accounting and the payrolls of the household, with about seven offices e word-processors. networking the p may include the holds of Sand Balmoral, the pa ing new ways computer.

If the palace worked it would n could communica visual display un telephone lines.

The Civil List, will show an incr cent to £3.85m f Family, revealed t Yacht Britannia w most expensive ite government depa Ministry of Defe

TIMES PAST THE TIMES

P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

TONGUE-TIED ON PRIORITIES

British economic policy has a habit of producing "Great Unmentionables". In the 1960s it was devaluation. In the 1980s it is long-term public spending and its implications for the level of taxation. It is a subject of extreme sensitivity in No 10 and No 11 Downing Street as the Cabinet will shortly decide whether or not to publish a Green Paper on it in time for the Budget and, if so, how much candour and hard information it should contain. Ministers are pulled in two directions. They are keen to make the public aware that funding the welfare state in the 1990s may not be easy. Yet they are highly nervous of publishing projections of economic growth, or the lack of it, and the fiscal consequences if their worst fears are realised.

A spectre haunts every ministerial discussion of the matter – the row produced by the leak in 1982 of the Think Tank's Cabinet paper entitled *Long Term Public Spending*. To the fainthearts in the Cabinet's economic strategy committee it is a terrible lesson for practical politicians, fearing that whatever they do, even if it is to float options, the Opposition and the press will parody it and treat the more radical scenarios as if they were official policy. (If only they were).

The short answer to the Cabinet's fainthearts is to remind them that they – not the Opposition or Fleet Street – occupy the seats of government. They control public policy-making and the purse-strings. Public spending choices are the very heart of political economy. The setting of priorities in this area is the business of government, without which it becomes just a matter of keeping the show on the road until next week, next month or next year. A Cabinet that does not engage in strategic planning for the future is sowing the seeds of confusion and inefficiency if not eventual ruin. The Ministry of Defence is obliged by the time it takes to design and build a weapons system to think ahead to the likely threat in 10 to 15 or even 25 years time. Government actuaries have to estimate the fiscal resources required to fund existing welfare commitments decades into the future. If ministers do not act in a similar fashion, the system of Cabinet government falters and finally fails. It was for precisely those failings, the tendency to fudge and to fiddle, that the new Conservatism associated with Mrs Thatcher and Sir Keith Joseph in the 1970s, criticised administrations of both parties in the years of Butskellite consensus.

It is not as if the long-term spending execise is technically difficult. Even without the benefit of data possessed by the Treasury's Public Services Sector, Professor Rudolf Klein and his team at Bath University are engaged upon it as is Sir Leo Pliatzky, who ran that sector in the 1970s, at the Policy Studies Institute. A great deal of the material is being prepared as part of Mr Fowler's review of pensions. All that is needed for a proper Green Paper taking an across-the-board look at the issue is political will and self-confidence at the top.

Why this coyness in the Cabinet room, with a majority of 144 and four and a half years of this Parliament left? The Prime Minister is a very determined politician who stated before the 1983 election, and since, that her administration had not run out of steam and was fizzing with ideas. Well, let us see them then. We need a discussion document on long-term spending endowed with the options and figures which alone can make it a worthwhile exercise. Public debate is not possible without public data.

O-LEVELS OVER THE TOP

The abolition of O Level is an emotive threat. Since its inception in the 1950s, the Ordinary Level of the General Certificate of Education has become a widely acknowledged badge of achievement by 16 year olds. No government remotely conscious of the time and effort (expended by teachers, examiners and pupils alike) to secure the public's esteem for examinations should lightly jeopardize that confidence. To the Certificate of Secondary Education, established more recently as a school-leaving test for the upper 60 per cent of the ability range, the same points apply – except, it must be said, to the certificate's lower grades and to those tests under what is called Mode Three, where a pupil's own teachers both set and mark the northern universities sit); the government recently approved, apparently with no qualms, the merging of the parallel 16-plus examinations taken in Scotland.

There is, in other words, plenty of evidence that the merger – which ought to lead to all sorts of economies within the schools and to a much more sensible set of choices for 14 year olds beginning examination preparation – will offend none of those trusted by the public to uphold the probity of formal examinations in schools. That the merging of GCE and CSE was mooted by Mrs Williams in her Labour days as education minister and has the approval of the National Union of Teachers – an individual and a corporation whose educational judgment might be questioned – need recognizing how large the Manpower Services Commission and its programmes of youth training now bulks on the horizon of these children, indeed of others further up the ability range. There is indeed an argument that the need for re-structuring the 16-plus examinations has been overtaken by the onset of large-scale disruption in the youth job market, and by the realization that training for jobs and employment skills must be incorporated into the school curriculum not left to post-school programmes.

That argument is strong. But it does not excuse Sir Keith from taking the plunge on an issue which has been batted around the Department of Education for too long. Uncertainty has been engendered in the schools and

Making all

From Mr Jon Kimch

Sir, Surely, the Forei Geoffrey Howe, was Mr Arafat and the called on them d briefings in Cairo Tuesday and Wedr "unambiguously cle ing ambiguities of th

He seemed to i ment of the Committee, which ings in Tunis on hearing Mr Arafat' meeting with Presid Egypt. This has forthrightness whicl all the Foreign certainties about position.

It says that in Mr his visit to Cairo disrupt the Camp agreements, not as a of support for them.

The Fatah state that the Arafat visit result in any politic with Egypt. On th Arafat explained President the position.

This rejects aut Palestinians as set David agreements. Reagan plan for association with Jo conflicts with the laid down by the P Council and by the heads of state h September, 1982.

The Fatah Cen also sets out a pre the negotiations wi of Jordan. "The Jordan will be bilateral relations movements on th

Mexico and

From the Ambassa

Sir, Sir Alfred Sher the Kissinger repo uary 10) contains remarks on my corrections are need

No free oil goes Cuba, in fact, no o possibility of a trian Mexican oil in Cu Europe – has never my Government. loans have never Cuba. The only extended, for $60 import of Mexicar goods.

Sir Alfred insists confidence that m merits from the Please let him con

From: P J Stibbard
19 January 1984

MISS M O'MARA

cc Mr Folger
Mr Hart
Mr Duff
Mrs Todd
Mr Ward - CSO (with incoming note)

RATIOS OF EXPENDITURE TO GDP

Your note of today to Philippa Todd.

2. The CSO wrote to Andrew Turnbull on 30 November reconciling the PEWP and OECD definitions for 1981-82/1981 (copy attached). I would be grateful if the CSO could do the same again (with the ET article figure as a starting point this time) for both the years in question. It will also be useful to know the rationale of the OECD treatment of "certain pension schemes" and details of any other major reason why the OECD figures show a different trend to the PEWP figures.

3. I note that the difference between the mid-1970s peak and the level in recent years is about the same on the current PEWP definition and on the UK version of general government expenditure - although they diverged last year (respectively the black unbroken line and the blue broken line in Chart 2 of the ET article - offprint attached to top copy). So it appears that OECD adjustments are the main cause of the difference. Perhaps the CSO could let us know whether the OECD use the same GDP definition as ourselves and whether they have yet incorporated the GDP revisions made last Autumn by the CSO.

P J STIBBARD

CONFIDENTIAL

FROM: T A A HART
DATE: 23 January 1984

CHIEF SECRETARY

cc ~~PPS~~
PS/FST
PS/EST
PS/MST
Sir P Middleton
Mr Bailey
Mr Anson
Mr Battishill
Mr Scholar o.r
Mr Monaghan
Mr Salveson
Mr Perfect
Mr Ridley
Mr Lord

* I strongly disagree with this advice. The 1980/81/82 precedents are clearly irrelevant, now that we have created the practice of publishing the PEWP in advance of the Budget. There will have to be an oral statement and either a major press conference. I would hope we avoid a PX debate, however — altho I am not too sanguine about this.

C
I can't see how he can hope to avoid an oral statement — nor why he should wish to do so (other than because of possible plans for foreign travel)
2. See the last sentence of the draft.
[initials]

PUBLIC EXPENDITURE WHITE PAPER: PUBLICATION

I understand from Mr Gieve that the Lord Privy Seal's Office have asked for a letter explaining why we think there need be no oral statement on the White Paper. Mr Biffen is concerned that there could be complaints (particularly from the TCSC) if there is neither an oral statement nor a debate before the Budget. You may recall that Mr Terence Higgins asked on the business statement last Thursday for an assurance that there would be a debate on the public expenditure White Paper before Budget day (see Hansard attached).

The precedents

2. The recent precedents are set out in the attached annex. They are, as you see, varied but it is worth noting that there has been a debate before the Budget in Government time for only two of the past six White Papers. In 1980, 1981 and 1982, the White Paper was one of the Budget documents and was taken in the Budget debates. In each of these years there was, however, a fairly lengthy section of the Budget speech on expenditure. It can be argued, therefore, that it was last year's practice which was exceptional. The exception was, of course, important since it followed directly from the Government's acceptance of a TCSC recommendation.

Views of Members

3. The TCSC were particularly pleased that the early publication of the White Paper last year allowed them to produce a printed report in time for a debate before the Budget. By the same token they will be annoyed - and will ask for explanations - if that is not possible this year. Mr Higgins, as a newly appointed Chairman who is something of an enthusiast on the subject, may feel personally aggrieved.

4. Against this, the White Paper is certainly not a Parliamentary best-seller and it appeals only to a dedicated minority of members. Past debates have been notoriously dull and ill-attended. It is, therefore, a fairly small number of experts on expenditure and sticklers for procedure who are most likely to be offended if there is no separate debate. There is a general point also that the poor quality of debates in the past is not necessarily a reason for abandoning them, particularly if it is thought valuable to improve this aspect of the work of Parliament in future.

Conclusion

5. I understand from Mr Gieve that you would prefer to avoid an expenditure debate before the Budget and, if possible, an oral statement; but that you would see a statement as the lesser evil if that was necessary to avoid a debate. The attached draft letter to Mr Biffen's office therefore makes the point that the timetable has been designed to allow adequate time for the TCSC to consider and report on the White Paper, which would then be available for the Budget debate. (This would accord quite closely with the precedents of 1980, 1981 and 1982.) You would no doubt refer fairly extensively to expenditure matters and the White Paper in your own speech on the Budget and backbench speakers would then follow as they wished.

6. From the point of view of Treasury Ministers this would be a satisfactory outcome. It would avoid a long and no doubt pretty arid debate on the White Paper; and it would have the presentational and logical advantage of discussing the White Paper alongside taxation. The Lord Privy Seal may argue, however, that this will not

be enough to avoid a procedural wrangle and charges of discourtesy to the TCSC and others. In that case, it would probably be easier to accept the shorter ordeal of an oral statement as the price of avoiding a debate. You would then devote less time to expenditure in your speech on the Budget. In the first instance, however, I suggest that you might try to avoid both, by quoting some of the earlier precedents.

AH

T A A HART
GEP1

DRAFT LETTER FROM PS/CHIEF SECRETARY TO PS/LORD PRIVY SEAL

PUBLIC EXPENDITURE WHITE PAPER

You said that the Lord Privy Seal would like further advice from us on whether (in the absence of a debate on the White Paper before the Budget) there should be an oral statement. Mr Biffen was concerned about the possible reaction of the TCSC if there is no statement, and has asked about the recent precedents.

2. The TCSC were certainly pleased that the early publication of the White Paper last year allowed them to take evidence and produce a report in time for a debate before the Budget. (Against that, the debate was never more than sparsely attended and evoked very little enthusiasm from members.) This year, because the Cabinet's decisions on expenditure were taken rather later (and have taken departments rather longer to process) it is not possible to publish the White Paper before 16 February. The TCSC will have time to take evidence and produce a report, but the Chief Secretary considers that it would be practical to debate this as part of the Budget debates. This has the advantages of allowing expenditure to be considered alongside revenue and of making a useful saving in Parliamentary time. It also avoids the difficulty, which Treasury Ministers experienced last year, of being asked to anticipate points which will very shortly arise on the Budget.

3. I am enclosing, as you asked, a short note on the recent precedents. There have been debates in Government time for only two of the past six White Papers. The more typical pattern since 1980, with the exception of 1983, has been to publish the White Paper as one of the Budget documents, with a parallel reference

in the Budget speech. There have been no recent oral statements on the White Paper alone.

4. Against this background, and subject to Mr Biffen's views, the Chief Secretary would prefer not to make an oral statement and he hopes it would be possible to avoid a debate before the Budget. He suggests that the TCSC might be invited (with suitable compliments) to prepare a report, as they did last year, which would then be considered in the Budget debates. He would undertake to give a lead in his own speech on the Budget by referring both to the White Paper and to the Committee's report. The Budget speech would, as usual, include a section on expenditure, referring to the White Paper.

[– but I see it as only 4 or 5 paragraphs long, dealing with both the PEWP and the LTPE totals, but including nothing on particular Departmental programmes – T/W mustn't be lumbered with P.E. detail – your bit should be on the high ground as the run up to the (re-)statement of your tax objectives for the Parlt.]

JV

Publication	Debate
Jan 78	16 March
Jan 79	PEWP debated on private members motions Friday 9 March
March 1980	No separate debate from Budget debate
March 1981	" " "
March 1982	" " "
Feb 1983	PEWP debate on 9 March only one week before Budget debate on 15 March

Business of the House

3.44 pm

Mr. Neil Kinnock (Islwyn): Will the Leader of the House state the business of the House for next week?

The Lord Privy Seal and Leader of the House of Commons (Mr. John Biffen): Yes, Sir. The business for next week will be as follows:

MONDAY 23 JANUARY—Motion on the Rate Support Grant (England) 1984-85 (House of Commons Paper No. 151)

TUESDAY 24 JANUARY—Opposition day (6th Allotted Day): Until about seven o'clock there will be a debate on the employment crisis on the lower Clyde and the future of the Scott Lithgow yard. Afterwards, a debate on closures and redundancies in British Rail Engineering Limited. Both debates will arise on Opposition motions.

Motion on the Education (Assisted Places) (Amendment) Regulations.

WEDNESDAY 25 JANUARY—Remaining stages of the Prevention of Terrorism (Temporary Provisions) Bill.

THURSDAY 26 JANUARY—There will be a debate on the White Paper, Cmnd. No. 9043 "Developments in the European Communities January to June 1983."

Motion on the European Assembly Elections Regulations 1983.

FRIDAY 27 JANUARY—Private Members' motions.

MONDAY 30 JANUARY—Second Reading of the Data Protection Bill *[Lords]*.

Mr. Kinnock: Will the Leader of the House inform us of the date of this year's Budget statement?

The Opposition are concerned about the delay in the announcement on the future of the A320 Airbus, which is obviously critical to the future of the British aerospace industry. Will there be an early statement on that, if possible next week?

Will the Leader of the House ensure that the Government provide time for debates on the rate support grants for Wales and Scotland, since the matter has generated much anxiety in both countries?

Today the Government inflicted a further burden on householders by forcing up electricity prices by obliging the Electricity Council to make increases that it does not wish to make and which are generally recognised to be unnecessary. May we expect a statement early next week about the price increases? If there is a statement, will it be made by the Secretary of State for Energy, for whom the increases represent a significant defeat, or will it be made by the Chancellor of the Exchequer, for whom the increases represent a tax?

Mr. Biffen: My right hon. Friend the Chancellor of the Exchequer intends to introduce his Budget on Tuesday 13 March, and I hope that it will be for the convenience of the House to know that date so early.

As soon as the Government are in a position to announce their policy decisions on the Airbus, they will come to the House, but I cannot promise that such a statement will be ready by next week. Clearly it would be in the interests of all for this matter to be resolved as soon as possible.

I note the right hon. Gentleman's point about the rate support grants for Scotland and Wales. The timing of the debates will be discussed through the usual channels.

I also note the right hon. Gentleman's interest in [a] statement on electricity prices. He kindly offered us a[n] option between two of the brightest stars of th[e] Government, and we shall bear that matter in mind.

Mr. Terence Higgins (Worthing): Does my right hon[.] Friend recall that last year the Treasury and Civil Servic[e] Select Committee strongly supported the publication of th[e] Government's public expenditure White Paper before th[e] Budget statement so that it could be debated and reporte[d] upon before the Budget was introduced? He has given th[e] date of the Budget. Will he assure the House that there wi[ll] be a debate on the public expenditure White Paper befor[e] Budget day?

Mr. Biffen: I can give my right hon. Friend m[y] sympathy for the point that he makes.

Mr. Dick Douglas (Dunfermline, West): Has th[e] Leader of the House received a request from the Secretar[y] of State for Transport to make a statement to the House o[n] yesterday's worrying report of the Air Travel Reserv[e] Agency, which showed clearly that the fund is i[n] difficulty, primarily because of the effects of the Lake[r] collapse? It also showed that the claims of 4,000 peopl[e] who were denied holidays as a result of the collapse i[n] February 1982 have still not been cleared up. Will the righ[t] hon. Gentleman give the House an undertaking, long before the holiday season begins, that the Secretary o[f] State for Transport will discuss those matters with the Civi[l] Aviation Authority and the agency so that holidaymaker[s] may know that they can enjoy safe holidays and tha[t] financial arrangements are secure?

Mr. Biffen: I have not received such a request, but th[e] fund is of acute interest both inside and outside the House[.] I shall draw my right hon. Friend's attention to what th[e] hon. Gentlaman has said.

Mr. Peter Bottomley (Eltham): I draw my right hon[.] Friend's attention to early-day motion 404 about a threa[t] to 40,000 jobs in London.

[That this House believes that the effects of a night and weekend ban on large lorries in the Greater London area will include a massive reduction in employment as depots and markets move outside the London Orbital Motorway M25 area, a dramatic increase in traffic congestion as delivery vehicles delay their entry into London until the rush-hour, a trebling of the number of lorries if smaller vehicles replace existing ones, that food will be less fresh and prices will rise, and London's manufacturing industrial base will be further eroded; and calls on the Greater London Council to consult retailers, distributors, manufacturers and unions, especially about the employment consequences which could add 10 per cent. to unemployment in London, and to publish the results of the consultation.]

Will my right hon. Friend make sure that if the GLC imposes a night and weekend ban on heavy lorries in London, which will lead to a flight from London of wholesale and warehouse jobs, Ministers at the Department of the Environment and the Department of Transport will, in the interests of maintaining employment in London and keeping down the amount of traffic, announce in the House immediate action to overturn the ban?

From the Chairman

(ppp)

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SWIA OAA
01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

Mr Anson
Mr Battishill
Mr Scholar [o/r], Mr Ridley
Mr Lord, Mr Portillo.

24th January 1984

Dear Nigel,

It is the Committee's intention to follow the practice of its predecessor by making a Report to the House on the Public Expenditure White Paper. The programme followed last year was reasonably convenient both for the Committee and the House, in the sense that the White Paper appeared in time for the Committee to hear evidence and to make a Report, and for that Report to be debated before the Budget.

Now that the date of this year's Budget is known (it is virtually the same as last year's), it should be possible to trace out a programme, but this depends crucially on the date of publication of the White Paper.

The Committee asked me to urge strongly that there should be no delay over this. Last year publication was on 1st February. A similar date this year is what the Committee are hoping you will manage to achieve.

As ever.
Terence

Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer

Terence L. Higgins

CONFIDENTIAL

FROM: T BURNS
DATE: 25 JANUARY 1984

1. Why so gloomy? These figs will do OK.
2. History.
3. Diff. Econ Assumptions.

CHANCELLOR

cc Mr Bailey
Mr Monger
Mr Odling-Smee
Mr Hart
Mr Riley
Mr G P Smith
Mr Melliss

Also more work here

(& should look less autarkic; with more economic/politics)

(Ensure it fits with PESC & MTFS)

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

Following the discussion at Chevening, we have reworked the projections of public expenditure and tax over the next decade. I attach a redraft of the relevant section of the Chevening paper, which could be an annex to the paper for Cabinet on 9 February, together with an outline by Mr Bailey of what the main paper might look like (depending on the assumptions chosen).

2. As we agreed, the economic assumptions have been changed slightly. We are now assuming a flat real exchange rate, and hence less increase in real oil prices; unemployment falling to 2¼ million, and a correspondingly slower growth of productivity and real wages; and zero inflation by the end of the period, now 1993-94.

abs to 40%?

3. As before, there are two sets of projections, but they are defined differently following our discussion yesterday. The first case has public expenditure flat up to 1988-89 and growing at 1% a year after that; in the second, public expenditure is flat throughout

4. Partly as a result of these changes, and partly due to an error in the earlier calculations, the conclusions of the analysis are now somewhat different from those in the Chevening paper. Public expenditure growth in cost terms of 1% per annum after 1988-89 is estimated to be consistent with bringing the non-North Sea tax burden down at least to its 1978-79 level (34.7%) by the end of the period. In fact, our estimates imply a burden of 33½%.

?

5. This conclusion is likely to give rise to presentational difficulties in relation to your colleagues. They may use it to argue for some rise in expenditure in the early years. And furthermore, zero expenditure growth in cost terms over the whole period points to a large reduction in the tax burden - to 32%, a level not experienced since the mid-1960s - which would undoubtedly provoke some colleagues to press for some growth in spending.

what's wrong with a return of the 60's?

6. Before we go much further, you will want to consider again which cases should be presented in the paper, and how they should be presented. The draft at this stage clearly needs to be reconsidered. Detailed tables are attached for the zero and 1% expenditure growth cases in the annex, but we have done a number of other variants which are alluded to in the text. It would be a relatively easy matter to construct others. — eg ½%

I'd stick to these 2 — colleagues will for publication prefer the softer of whichever pair you offer them!

7. Preparation of these numbers has made us increasingly aware of the arithmetic nature of this exercise. Only the projections of North Sea taxes and debt interest have any significant bearing on the tax burden, given assumptions for the PSBR, for any given growth of public expenditure. As it turns out North Sea taxes and debt interest fall by similar amounts as proportions of GDP, and so we are left with the broad conclusion that the tax burden is lightened to the extent that the fall in public expenditure relative to GDP exceeds the required reductions in the PSBR. The detailed projections of taxes are relevant mainly in assessing what configurations of tax rates and allowances are consistent with any given tax burden. Projections of individual public expenditure programmes are not considered at all here. While this aggregate approach may well be best for presentation to Cabinet, we shall need to consider how much and what type of analysis at a disaggregated level we should carry out ourselves in preparation for the Cabinet discussion and for any published document.

Good! That's easily understood.

8. Finally, it is important to bear in mind the uncertainty surrounding these projections, and in particular the economic assumptions on which they are based. The prospect could look a lot worse with lower growth, for example. We need to get across to Cabinet the implications of this uncertainty for the planning process.

✓

TB

T BURNS

Sound for particular trends e.g. here?

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

The Government has been seeking to encourage public debate on the longer-term prospects for public expenditure. Our objective is to reduce the burden of public spending, and taxation, and we shall achieve this more effectively if the changes are planned over a period, rather than settled ad hoc from year to year in each Survey. Hence we have set in train various forms of review, notably the review of longer-term pension prospects chaired by the Secretary of State for Social Services. We need to create the right climate of public opinion, by emphasising the rewards from reining back public expenditure in the shape of a lower burden of taxation.

My [illegible]; [illegible];

2. [For this reason, I have expressed willingness to contributed to the public debate. There is some pressure from the media for a more systematic Government contribution.] But colleagues will recognise that this is not without difficulties;

i. Different expenditure programmes have enormously varying timescales - for example, the full burden of the State earnings-related pension scheme does not arise until well into the next century.

ii. In projecting ahead for a decade or more, there is bound to be a very wide range of uncertainty - for example about the rate of growth of output. This can be handled by giving alternative projections, but the risk is that these will blur the message.

iii. Some key economic assumptions - for example the rate of decline in unemployment, or growth of real earnings - will be misrepresented as forecasts or even objectives.

iv. The 1982 work on long-term public expenditure, which was leaked to the Press, shows the difficulties of projecting individual programme totals, when forecasts of future policy reactions are misunderstood, either as Government commitments or as deliberate Treasury ~~exaggeration.~~ gloom-mongering

3. To meet these problems I now propose a different approach. We shall in any case need to publish a new medium term financial strategy (MTFS) with the Budget, and I intend that this should run forward for 5 years, to 1988-89. As part of the monetary framework, this will need to project a medium-term path for the PSBR. What I propose is that, as part of the background to Budget discussion of the MTFS, we should publish a discussion document with projections of the main economic variables, the PSBR, and totals of tax revenues and public expenditure, for a further 5 years to 1993-94.

4. I attach an outline of the kind of projections I have in mind. This shows two cases - one based on the non-North-Sea tax burden coming down to its 1978-79 level in the final year; and the other holding public expenditure flat in cost terms thoughout the period. On the stated assumptions, it shows the very large gains in terms of tax reduction which would be secured by continuing to hold public spending flat in cost terms. If we keep to this path, it may well be that lower tax will lead to higher growth, which in turn will provide room for increased public expenditure (as in the higher growth case). But we should plan now to ensure this "virtuous circle", and not to give away the benefits in advance in increased real spending.

5. I invite Cabinet to agree that:

i. We should plan to publish projections based on case 2, with variants for different growth rates;

ii. Consistent with this, in the MTFS we should project forward public expenditure broadly flat in cost terms to 1988-89.

6. If this is agreed, I will circulate a draft of the discussion document, which will show past trends, discuss the pressures for increased spending (demography, technology, capital infastructure and so on) and describe the basis of the projection.

This page & all words for colleagues

This first para needs to be a) rewritten, b) preceded by a para/paras on expenditure.

Economic and fiscal prospects to 1993-94

9. The prospects for the economy and the fiscal prospect over the next decade are inherently uncertain. In addition to the uncertainties about the level of public expenditure discussed earlier, the fiscal prospect will be influenced by such factors as:

i. the growth of output, which will have a major impact on the amount of tax collected and on demand determined public expenditure;

ii. the level of unemployment, which will influence expenditure, particularly on social security;

iii. the rate of inflation and the level of real interest rates which, together with the profile of borrowing, will determine the levels of interest payments and receipts;

iv. real world oil prices and the real effective exchange rate, which will affect oil revenues from the North Sea;

v. the distribution of income between profits and wages, which will influence total tax revenues because of different marginal rates of tax on company and personal incomes;

vi. movements of real earnings in the public and private sectors, which will influence the movement of public expenditure relative to tax receipts.

10. The prospect for each of these variables is very uncertain. Some illustrative figures have been constructed for the period up to 1993-94. The economic background underlying the calculations takes as its starting point the forecast in the Autumn Statement for the year ahead (ie to 1984-85) and thereafter the path set out in table 1 attached. The main features are:

- real GDP grows at 2% pa

- unemployment comes down steadily to 2¼ million over the period

- inflation (GDP deflator) comes down to 3% by 1988-89 and zero by 1993-94

- real short term interest rates come down to 2% in 1987-88, and stay there

- real sharply oil prices rise by about 8%, but despite this oil revenues fall from 3% of GDP in 1984-85 to 1½% in 1993-94 with the fall in North Sea output

- the real exchange rate remains at its present level

- real earnings in both the market sector and in public services grow at ¾% pa.

11. The figures are based on the assumption that the PSBR objectives in the MTFS for the period up to 1988-89 are achieved. Thereafter, the PSBR is assumed to come down gradually to 1% of GDP: by the end of the period money GDP is rising at 2% per annum, and the ratio of public sector debt to income is broadly stable. The public expenditure planning total is assumed to be held constant in real terms until 1988-89, the end of this Parliament, two years longer than in the White Paper. For the subsequent period, two cases have been constructed. The first holds the planning total constant in cost terms until the end of the period. In the second, the planning total rises 1% per annum in cost terms after 1988-89. In both cases the PSBR objective is assumed to be met by varying personal income tax, rather than indirect tax or company / capital taxes.

Discuss

12. The detailed figures are presented in tables 2 and 3. The tax figures before fiscal adjustment assume present tax rates and real levels of tax allowances. For given public expenditure and PSBR figures, the estimated fiscal adjustment depends on the details of the revenue projections, including rate receipts - and hence local authority relevant expenditure - and national insurance contributions. For example, the projections assume some fall in rates as a share of GDP, and this tends to reduce the fiscal adjustment*. The projections of total taxes, including the fiscal adjustment, are of course not influenced by these details.

---

*The assumed fall in local authorities' relevant expenditure as a share of GDP is offset by higher expenditure elsewhere within the planning total.

13. The table below summarises the projections.

Public Finances

Changes in share of GDP 1983-84 to 1993-94	Zero growth	1% growth
Public expenditure planning total	-7.5	-5.9
Net debt interest	-1.7	-1.7
North Sea Taxes	-1.4	-1.4
Non-North Sea Taxes	-5.3	-3.7
Other receipts (net)	-0.1	-0.1
PSBR	-2.4	-2.4
Non-North Sea tax burden**	-7.1	-5.4

In both cases the fall in the PSBR as a share of GDP is accounted for to a considerable extent by falling debt interest payments. But there is some additional fall which, together with a falling share of North Sea tax revenues, requires the public expenditure planning total to fall more than non-North Sea taxes and other net receipts. The main difference between the two cases lies in the absolute amounts of the tax and expenditure reductions.

redraft

14. The precise paths after 1984-85 should not be invested with too much significance in view of the stylised nature of the assumptions. But the following broad conclusions emerge:

i. If the expenditure planning total is held constant in cost terms until 1988-89, a positive fiscal adjustment - ie scope for tax reductions - is likely to emerge after 1984-85.

**The burden of non-North Sea taxes is defined as non-North Sea tax revenues as a share of non-North Sea GDP. It falls more than the share of non-North Sea taxes in total GDP because of the declining contribution of North Sea output total GDP. Recent data for the tax burden are as follows:

1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
36.5	36.4	35.4	34.7	35.7	36.9	39.6	39.5	38.9

ii. If it were held constant throughout the period, the non-North Sea tax burden could be reduced to about 32% by 1993-94 - ie to levels ruling in the mid-1960s. A reduction of taxes of this order is equivalent to a fiscal adjustment of about 5¾% of GDP

iii. If the planning total were allowed to rise by 1% pa after 1988-89, the reduction in the tax burden would be smaller. Nevertheless, by 1993-94 it would be back to, and very slightly below its 1978-79 level - 33¾% as against 34¾%. Such a reduction in taxation is equivalent to a fiscal adjustment of 4% of GDP.

15. The tax changes in the projections - the fiscal adjustments - are presented in terms of reductions in personal income tax. This is for ease of exposition only, and is not intended to imply that the government would in the event leave all other taxes unchanged. Nevertheless it is useful to present the numbers in this way. The table below illustrates the implications of the projections for personal tax allowances, assuming the basic rate is held at its present level, and for the basic rate, assuming present allowances as a share of earnings. In practice, intermediate cases are more likely than the extremes presented here.

Married man's allowance as % of average male earnings

Basic rate	1983-84	1993-94 Zero growth	1993-94 1% growth
30p	31	63	52
25p	-	58	45

Needs historical comparisons - to show that the 93/4 numbers are not historically high -

16. If the growth of GDP turned out to be higher than assumed so far, the fiscal prospect would be more favourable. The more the burden of taxation is reduced, the greater is the prospect of rapid growth. Faster growth of GDP would imply greater reductions in the non-North Sea tax burden for any given path of public expenditure. For example, if GDP were to grow by 3% pa instead of 2% pa over the decade, this would permit an extra reduction in the tax burden of 2¾ percentage points by 1993-94. Conversely, however, low growth of GDP would mean less reduction in the tax burden.

17. Other features of the economic prospect might be different for any given GDP paths:

- Lower unemployment would reduce the pressure for public expenditure increases, but it would mean a reduction in receipts - notably national insurance contributions. The scope for tax reductions would therefore be less for a given path of public expenditure.

Both damaging ∴ omit both.

- Higher growth of real earnings would increase the pressure for higher public expenditure, particularly insofar as the higher earnings accrued to public sector employees, but would also tend to raise tax revenues. For given public expenditure, there would therefore be somewhat greater scope for tax reductions in this case also.

CONFIDENTIAL

Annuals v. unsure goals — far too many for too detailed

FLAT 1988-89

TABLE 2: CASE 1

Economic staff

[illegible] objectives better growth than case 2

TABLE 1

ECONOMIC ASSUMPTIONS

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	
Growth of GDP	2.7	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	X[1]
Growth of Non-North Sea GDP (FC)	2.2	2.8	2.2	2.6	2.9	2.3	2.3	2.7	2.4	2.6	2.5	X[2]
Inflation (GDP Deflator, MP)	5.5	4.7	4.2	3.8	3.4	3.0	2.5	2.0	1.5	.8	.0	
Money GDP (Level MP)	302.8	326.6	347.1	367.5	387.6	407.2	425.7	442.9	458.6	471.3	480.7	
Growth of Market Sector Productivity	1.5	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Unemployment (million)	3.0	2.9	2.8	2.7	2.7	2.6	2.5	2.4	2.3	2.2	2.2	X[3]
Real Exchange Rate	96.5	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	
Real Short Term Interest Rate	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Growth of Real Wages: Market Sector	2.5	2.4	.8	.8	.8	.8	.8	.8	.8	.8	.8	
Growth of Real Wages: Public Services	1.4	2.0	.8	.8	.8	.8	.8	.8	.8	.8	.8	
Savings Ratio	11.1	11.2	9.3	8.8	8.4	7.8	7.5	6.8	6.1	5.5	4.5	
Growth of Consumers Expenditure	2.6	2.6	4.5	3.4	2.8	3.3	3.0	3.2	3.4	3.3	3.7	
Public Debt Income Ratio	49.1	48.0	47.2	46.3	45.7	45.0	44.4	44.0	43.7	43.6	43.8	
Real Oil Prices	143.4	134.4	130.8	130.8	130.9	134.0	137.2	140.5	145.4	150.5	155.8	

X^{1-3} are constant as between the 2 cases. They shouldn't be.

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FLAT 1988-89

TABLE 2A

PUBLIC EXPENDITURE

£bn 1982-83 Prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
PE planning total											
(Before fis. adj.) x1	114.6	114.6	114.8	114.4	114.4	114.4	114.4	114.4	114.4	114.4	114.4
(After fis. adj.)	114.6	114.6	114.8	114.4	114.4	114.4	114.4	114.4	114.4	114.4	114.4
PLANNING TOTAL ADJUSTMENTS	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
GG EXPENDITURE (PE basis)	114.6	114.6	114.8	114.4	114.4	114.4	114.4	114.4	114.4	114.4	114.4
+ NAT. ACCOUNTS ADJUSTMENTS	4.5	4.5	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.6	4.6
+ GROSS DEBT INTS PAYMENTS	14.0	14.0	13.6	13.1	12.4	11.7	11.0	10.3	9.5	8.7	7.7
=GG EXPENDITURE (NATIONAL ACCOUNT TERMS)	131.9	133.0	132.9	131.9	131.2	130.5	129.9	129.2	128.5	127.7	126.7
GG EXPENDITURE CHECK	133.1	133.1	132.9	131.9	131.2	130.5	129.9	129.2	128.5	127.7	126.7
PLANNING TOTAL	114.6	114.6	114.8	114.4	114.4	114.4	114.4	114.4	114.4	114.4	114.4
+ LA VAT	.8	.8	.8	.9	.9	.9	1.0	1.0	1.0	1.1	1.1
+ NET DEBT INTEREST	8.9	8.9	8.7	8.4	8.1	7.6	7.2	6.7	6.2	5.6	4.9
+ CAPITAL CONSUMPTION	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
=PUBLIC EXPENDITURE(PE basis) x2	126.3	126.3	126.4	125.7	125.4	125.0	124.5	124.1	123.6	123.1	122.4

MEMORANDUM ITEM

PLANNING TOTAL EXCL SPECIAL ASSETS SALES x3	115.7	116.3	116.5	116.1	115.4	115.0	114.8	114.6	114.5	114.5	114.4

Simplify

? The only lines needed are x1-3 ?

Much too much stuff

FLAT 1988-89

TABLE 2B

PUBLIC EXPENDITURE

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP Market Prices											
PE planning total											
(Before fis. adj.)	39.9	38.8	38.1	37.2	36.5	35.7	35.0	34.4	33.7	33.0	32.4
(After fis. adj.)	39.9	38.8	38.1	37.2	36.5	35.7	35.0	34.4	33.7	33.0	32.4
PLANNING TOTAL ADJUSTMENTS	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
GG EXPENDITURE (PE basis)	39.9	38.8	38.1	37.2	36.5	35.7	35.0	34.4	33.7	33.0	32.4
+ NAT. ACCOUNTS ADJUSTMENTS	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
+ GROSS DEBT INTS PAYMENTS	4.9	4.7	4.5	4.3	3.9	3.7	3.4	3.1	2.8	2.5	2.2
=GG EXPENDITURE											
(NATIONAL ACCOUNT TERMS)	45.9	45.0	44.1	42.9	41.8	40.8	39.8	38.8	37.8	36.9	35.9
GG EXPENDITURE CHECK	46.4	45.0	44.1	42.9	41.8	40.8	39.8	38.8	37.8	36.9	35.9
PLANNING TOTAL	39.9	38.8	38.1	37.2	36.5	35.7	35.0	34.4	33.7	33.0	32.4
+ LA VAT	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3
+ NET DEBT INTEREST	3.1	3.0	2.9	2.7	2.6	2.4	2.2	2.0	1.8	1.6	1.4
+ CAPITAL CONSUMPTION	.7	.7	.7	.7	.6	.6	.6	.6	.6	.6	.6
=PUBLIC EXPENDITURE(PE basis)	44.0	42.7	41.9	40.9	40.0	39.0	38.2	37.3	36.4	35.5	34.6
MEMORANDUM ITEM											
PLANNING TOTAL EXCL SPECIAL ASSETS SALES	40.3	39.3	38.6	37.7	36.8	35.9	35.2	34.4	33.7	33.0	32.4

simplify similarly

CONFIDENTIAL

FLAT 1988-89

TABLE 3A

TAXES AND RECEIPTS

£bn, 1982-83 prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Non North Sea Taxes (i)	103.7	105.3	107.7	110.1	112.5	115.4	117.8	120.4	123.3	126.1	129.2
North Sea Taxes	8.5	9.0	8.7	8.8	7.5	7.6	7.5	6.9	6.7	6.3	5.8
Total Taxes (i)	112.2	114.3	116.5	118.9	120.0	123.0	125.3	127.3	130.0	132.4	135.0
Other Receipts	5.7	5.6	5.7	5.7	5.7	5.6	5.6	5.6	5.6	5.6	5.6
Interest Receipts	5.1	5.1	4.9	4.6	4.3	4.1	3.8	3.6	3.4	3.1	2.8
Accurals Adjustments	.3	.3	.3	.3	.4	.1	.3	.3	.0	.1	.0
General Government											
Receipts (i)	121.4	125.1	127.4	129.5	130.3	132.8	135.1	136.8	139.1	141.3	143.5
GG Receipts Check ?	123.3	125.3	127.4	129.5	130.3	132.8	135.1	136.8	139.1	141.3	143.5
Fiscal Adjustment	.0	-.5	.9	3.4	5.0	7.3	10.1	12.2	14.9	17.7	20.6
Non North Sea Taxes(ii)	103.7	105.8	106.8	106.7	107.5	108.0	107.7	108.2	108.4	108.4	108.7
Total Taxes (ii)	112.2	114.8	115.6	115.5	115.0	115.6	115.2	115.0	115.1	114.7	114.5
GG Receipt (ii)	121.4	125.6	126.5	126.2	125.4	125.4	125.0	124.6	124.1	123.6	122.9

(i) Before Fiscal Adjustment
(ii) After Fiscal Adjustment

FLAT 1988-89

TABLE 3B

TAXES AND RECEIPTS

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP Market Prices											
Non North Sea Taxes (i)	36.1	35.6	35.7	35.8	35.8	36.1	36.1	36.2	36.3	36.4	36.6
North Sea Taxes	3.0	3.0	2.9	2.9	2.4	2.4	2.3	2.1	2.0	1.8	1.6
Total Taxes (i)	39.1	38.6	38.6	38.6	38.2	38.4	38.4	38.2	38.3	38.2	38.2
Other Receipts	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6
Interest Receipts	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0	.9	.8
Accurals Adjustments	.1	.1	.1	.1	.1	.0	.1	.1	.0	.0	.0
General Government Receipts (i)	42.3	42.3	42.2	42.1	41.5	41.5	41.4	41.1	40.9	40.8	40.6
GG Receipts Check ?	42.9	42.4	42.2	42.1	41.5	41.5	41.4	41.1	40.9	40.8	40.6
Fiscal Adjustment	.0	-.2	.3	1.1	1.6	2.3	3.1	3.7	4.4	5.1	5.8
Non North Sea Taxes(ii)	36.1	35.8	35.4	34.7	34.3	33.8	33.0	32.5	31.9	31.3	30.8
Total Taxes (ii)	39.1	38.8	38.3	37.6	36.7	36.1	35.3	34.5	33.9	33.1	32.4
GG Receipt (ii)	42.3	42.5	41.9	41.0	40.0	39.2	38.3	37.4	36.5	35.7	34.8
Memorandum Item											
Non North Sea Tax Burden	38.9	38.6	38.1	37.2	36.4	35.7	34.8	34.0	33.3	32.5	31.8

(i) Before Fiscal Adjustment
(ii) After Fiscal Adjustment

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FLAT 1988-89

TABLE 4A

PUBLIC SECTOR BORROWING

£bn 1982-83 prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
GG EXPENDITURE (i)	131.9	133.0	132.9	131.9	131.2	130.5	129.9	129.2	128.5	127.7	126.7
GG RECEIPTS (i)	121.4	125.1	127.4	129.5	130.3	132.8	135.1	136.8	139.1	141.3	143.5
FISCAL ADJUSTMENT	.0	-.5	.9	3.4	5.0	7.3	10.1	12.2	14.9	17.7	20.6
GGBR	10.5	7.9	6.4	5.7	5.8	5.1	4.9	4.6	4.4	4.1	3.8
PUB CORPS MOB ! Yes, they are.	.4	.4	.4	.4	.3	.3	.3	.3	.3	.3	.3
PSBR	9.7	7.3	6.0	5.4	5.5	4.8	4.6	4.3	4.1	3.8	3.5
AS % OF GDP	3.4	2.5	2.0	1.7	1.7	1.5	1.4	1.3	1.2	1.1	1.0
GDP (1982-83 m prices)	287.1	295.7	301.6	307.6	313.8	320.0	326.4	333.0	339.6	346.4	353.3

(i) Before fiscal adjustment

TABLE 4B

PUBLIC SECTOR BORROWING

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP at Market Prices											
GG EXPENDITURE (i)	45.9	45.0	44.1	42.9	41.8	40.8	39.8	38.8	37.8	36.9	35.9
GG RECEIPTS (i)	42.3	42.3	42.2	42.1	41.5	41.5	41.4	41.1	40.9	40.8	40.6
FISCAL ADJUSTMENT	.0	-.2	.3	1.1	1.6	2.3	3.1	3.7	4.4	5.1	5.8
GGBR	3.7	2.7	2.1	1.9	1.9	1.6	1.5	1.4	1.3	1.2	1.1
PUB CORPS MOB	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
PSBR	3.4	2.5	2.0	1.7	1.7	1.5	1.4	1.3	1.2	1.1	1.0

(i) Before fiscal adjustment

FLAT 1988-89

TABLE 5A

TAX

£bn 1982-83 prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Income Tax (before fis adj)	30.3	31.8	32.4	33.0	33.6	34.3	34.9	35.7	36.4	37.1	37.8
Income Tax (after fis adj)	30.3	32.3	31.5	29.6	28.6	26.9	24.8	23.4	21.4	19.4	17.2
National Insurance Contributions	20.4	20.6	20.9	21.2	21.6	21.9	22.3	22.6	23.0	23.4	23.8
Specifics Inc VED	16.1	16.4	16.9	17.3	17.6	18.0	18.4	18.8	19.2	19.7	20.2
VAT + Car Tax	15.8	16.1	16.9	17.6	18.1	18.8	19.4	20.1	20.8	21.6	22.5
LA Rates	11.7	11.8	11.9	12.0	12.1	12.2	12.3	12.4	12.5	12.6	12.7
North Sea Taxes	8.5	9.0	8.7	8.8	7.5	7.6	7.5	6.9	6.7	6.3	5.8
Corporation Taxes	4.8	4.2	4.4	4.8	5.4	6.1	6.4	6.8	7.4	7.8	8.3
NIS	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital Taxes	1.1	1.0	.9	.8	.7	.7	.6	.6	.6	.5	.5
Gas Levy	.5	.5	.5	.5	.4	.4	.4	.4	.3	.3	.3
Misc Exp. Taxes Inc Stamp Duty	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Total Taxes	112.2	114.8	115.6	115.5	115.0	115.6	115.2	115.0	115.1	114.7	114.5
Total Taxes (Check)	112.2	114.8	115.6	115.5	115.0	115.6	115.2	115.0	115.1	114.7	114.5

Unrealistic to believe we can ([illegible]) more tax

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FLAT 1988-89

TABLE 5B

TAX

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP at Market Prices											
Income Tax (before fis adj)	10.6	10.8	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Income Tax (after fis adj)	10.6	10.9	10.4	9.6	9.1	8.4	7.6	7.0	6.3	5.6	4.9
National Insurance Contributions	7.1	7.0	6.9	6.9	6.9	6.8	6.8	6.8	6.8	6.8	6.7
Specifics Inc VED	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.7	5.7	5.7
VAT + Car Tax	5.5	5.5	5.6	5.7	5.8	5.9	5.9	6.0	6.1	6.2	6.4
LA Rates	4.1	4.0	4.0	3.9	3.9	3.8	3.8	3.7	3.7	3.6	3.6
North Sea Taxes	3.0	3.0	2.9	2.9	2.4	2.4	2.3	2.1	2.0	1.8	1.6
Corporation Taxes	1.7	1.4	1.5	1.6	1.7	1.9	2.0	2.0	2.2	2.2	2.4
NIS	.5	.5	.5	.4	.4	.4	.4	.4	.4	.4	.4
Capital Taxes	.4	.3	.3	.3	.2	.2	.2	.2	.2	.2	.1
Gas Levy	.2	.2	.2	.2	.1	.1	.1	.1	.1	.1	.1
Misc Exp. Taxes Inc Stamp Duty	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5
Total Taxes	39.1	38.8	38.3	37.6	36.7	36.1	35.3	34.5	33.9	33.1	32.4
Total Taxes (Check)	39.1	38.8	38.3	37.6	36.7	36.1	35.3	34.5	33.9	33.1	32.4

Far too many tables

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TABLE 3: CASE 2

1% POST 1988-89

TABLE 1

ECONOMIC ASSUMPTIONS

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Growth of GDP	2.7	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Growth of Non-North Sea GDP (FC)	2.2	2.8	2.2	2.6	2.9	2.3	2.3	2.7	2.4	2.6	2.5
Inflation (GDP Deflator, MP)	5.5	4.7	4.2	3.8	3.4	3.0	2.5	2.0	1.5	.8	.0
Money GDP (Level MP)	302.8	326.6	347.1	367.5	387.6	407.2	425.7	442.9	458.6	471.3	480.7
Growth of Market Sector Productivity	1.5	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Unemployment (million)	3.0	2.9	2.8	2.7	2.7	2.6	2.5	2.4	2.3	2.2	2.2
Real Exchange Rate	96.5	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0
Real Short Term Interest Rate	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Growth of Real Wages:											
Market Sector	2.5	2.4	.8	.8	.8	.8	.8	.8	.8	.8	.8
Public Services	1.4	2.0	.8	.8	.8	.8	.8	.8	.8	.8	.8
Savings Ratio	11.1	11.2	9.3	8.8	8.4	7.8	7.1	6.0	5.3	4.7	3.7
Growth of Consumers Expenditure	2.6	2.6	4.5	3.4	2.8	3.3	2.9	3.1	2.8	2.8	3.1
Public Debt Income Ratio	49.1	48.0	47.2	46.3	45.7	45.0	44.4	44.0	43.7	43.6	43.8
Real Oil Prices	143.4	134.4	130.8	130.8	130.9	134.0	137.2	140.5	145.4	150.5	155.8

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1% POST 1988-89

NB [illegible] 1½%

TABLE 2A

PUBLIC EXPENDITURE

£bn 1982-83 Prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
PE planning total											
(Before fis. adj.)	114.6	114.6	114.8	114.4	114.4	114.4	115.5	116.7	117.9	119.0	120.2
(After fis. adj.)	114.6	114.6	114.8	114.4	114.4	114.4	115.5	116.7	117.9	119.0	120.2
PLANNING TOTAL ADJUSTMENTS	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
GG EXPENDITURE (PE basis)	114.6	114.6	114.8	114.4	114.4	114.4	115.5	116.7	117.9	119.0	120.2
+ NAT. ACCOUNTS ADJUSTMENTS	4.5	4.5	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.6	4.6
+ GROSS DEBT INTS PAYMENTS	14.0	14.0	13.6	13.1	12.4	11.7	11.0	10.3	9.5	8.7	7.7
=GG EXPENDITURE											
(NATIONAL ACCOUNT TERMS)	131.9	133.0	132.9	131.9	131.2	130.5	131.0	131.5	131.9	132.3	132.6
GG EXPENDITURE CHECK	133.1	133.1	132.9	131.9	131.2	130.5	131.0	131.5	131.9	132.3	132.6
PLANNING TOTAL	114.6	114.6	114.8	114.4	114.4	114.4	115.5	116.7	117.9	119.0	120.2
+ LA VAT	.8	.8	.8	.9	.9	.9	1.0	1.0	1.0	1.1	1.1
+ NET DEBT INTEREST	8.9	8.9	8.7	8.4	8.1	7.6	7.2	6.7	6.2	5.6	4.9
+ CAPITAL CONSUMPTION	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
=PUBLIC EXPENDITURE(PE basis)	126.3	126.3	126.4	125.7	125.4	125.0	125.7	126.4	127.1	127.7	128.2
MEMORANDUM ITEM											
PLANNING TOTAL EXCL SPECIAL ASSETS SALES	115.7	116.3	116.5	116.1	115.4	115.0	115.9	116.9	118.0	119.1	120.3

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1% POST 1988-89

TABLE 2B

1978-79

PUBLIC EXPENDITURE

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP Market Prices											
PE planning total											
(Before fis. adj.)	39.9	38.8	38.1	37.2	36.5	35.7	35.4	35.0	34.7	34.4	34.0
(After fis. adj.)	39.9	38.8	38.1	37.2	36.5	35.7	35.4	35.0	34.7	34.4	34.0
PLANNING TOTAL ADJUSTMENTS	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
GG EXPENDITURE (PE basis)	39.9	38.8	38.1	37.2	36.5	35.7	35.4	35.0	34.7	34.4	34.0
+ NAT. ACCOUNTS ADJUSTMENTS	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
+ GROSS DEBT INTS PAYMENTS	4.9	4.7	4.5	4.3	3.9	3.7	3.4	3.1	2.8	2.5	2.2
=GG EXPENDITURE (NATIONAL ACCOUNT TERMS)	45.9	45.0	44.1	42.9	41.8	40.8	40.1	39.5	38.8	38.2	37.5
GG EXPENDITURE CHECK	46.4	45.0	44.1	42.9	41.8	40.8	40.1	39.5	38.8	38.2	37.5
PLANNING TOTAL	39.9	38.8	38.1	37.2	36.5	35.7	35.4	35.0	34.7	34.4	34.0
+ LA VAT	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3
+ NET DEBT INTEREST	3.1	3.0	2.9	2.7	2.6	2.4	2.2	2.0	1.8	1.6	1.4
+ CAPITAL CONSUMPTION	.7	.7	.7	.7	.6	.6	.6	.6	.6	.6	.6
=PUBLIC EXPENDITURE(PE basis)	44.0	42.7	41.9	40.9	40.0	39.0	38.5	38.0	37.4	36.9	36.3

MEMORANDUM ITEM

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
PLANNING TOTAL EXCL SPECIAL ASSETS SALES	40.3	39.3	38.6	37.7	36.8	35.9	35.5	35.1	34.7	34.4	34.0

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1% POST 1988-89

TABLE 3A

TAXES AND RECEIPTS

£bn, 1982-83 prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Non North Sea Taxes (i)	103.7	105.3	107.7	110.1	112.5	115.4	117.8	120.3	123.1	125.7	128.6
North Sea Taxes	8.5	9.0	8.7	8.8	7.5	7.6	7.5	6.9	6.7	6.3	5.8
Total Taxes (i)	112.2	114.3	116.5	118.9	120.0	123.0	125.3	127.2	129.8	132.0	134.4
Other Receipts	5.7	5.6	5.7	5.7	5.7	5.6	5.6	5.6	5.6	5.6	5.6
Interest Receipts	5.1	5.1	4.9	4.6	4.3	4.1	3.8	3.6	3.4	3.1	2.8
Accurals Adjustments	.3	.3	.3	.3	.4	.1	.3	.3	.0	.1	.0
General Government Receipts (i)	121.4	125.1	127.4	129.5	130.3	132.8	135.1	136.7	138.8	140.9	142.9
GG Receipts Check	123.3	125.3	127.4	129.5	130.3	132.8	135.1	136.7	138.8	140.9	142.9
Fiscal Adjustment	.0	-.5	.9	3.4	5.0	7.3	8.9	9.8	11.2	12.6	14.1
Non North Sea Taxes(ii)	103.7	105.8	106.8	106.7	107.5	108.0	108.8	110.5	111.9	113.0	114.5
Total Taxes (ii)	112.2	114.8	115.6	115.5	115.0	115.6	116.3	117.3	118.6	119.3	120.3
GG Receipt (ii)	121.4	125.6	126.5	126.2	125.4	125.4	126.1	126.9	127.6	128.2	128.8
	0	0	0.4	3.0	1.6	2.3	2.5	0.9	1.4	1.4	1.5

(i) Before Fiscal Adjustment
(ii) After Fiscal Adjustment

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1% POST 1988-89

TABLE 3B

TAXES AND RECEIPTS

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP Market Prices											
Non North Sea Taxes (i)	36.1	35.6	35.7	35.8	35.8	36.1	36.1	36.1	36.2	36.3	36.4
North Sea Taxes	3.0	3.0	2.9	2.9	2.4	2.4	2.3	2.1	2.0	1.8	1.6
Total Taxes (i)	39.1	38.6	38.6	38.6	38.2	38.4	38.4	38.2	38.2	38.1	38.0
Other Receipts	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6
Interest Receipts	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0	.9	.8
Accurals Adjustments	.1	.1	.1	.1	.1	.0	.1	.1	.0	.0	.0
General Government Receipts (i)	42.3	42.3	42.2	42.1	41.5	41.5	41.4	41.1	40.9	40.7	40.4
GG Receipts Check	42.9	42.4	42.2	42.1	41.5	41.5	41.4	41.1	40.9	40.7	40.4
Fiscal Adjustment	.0	-.2	.3	1.1	1.6	2.3	2.7	3.0	3.3	3.6	4.0
Non North Sea Taxes(ii)	36.1	35.8	35.4	34.7	34.3	33.8	33.3	33.2	32.9	32.6	32.4
Total Taxes (ii)	39.1	38.8	38.3	37.6	36.7	36.1	35.6	35.2	34.9	34.4	34.0
GG Receipt (ii)	42.3	42.5	41.9	41.0	40.0	39.2	38.6	38.1	37.6	37.0	36.4
Memorandum Item											
Non North Sea Tax Burden	38.9	38.6	38.1	37.2	36.4	35.7	35.2	34.8	34.4	33.9	33.5

(i) Before Fiscal Adjustment
(ii) After Fiscal Adjustment

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1% POST 1988-89

Have breakdown of [illegible]

TABLE 5A

TAX

£bn 1982-83 prices	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Income Tax (before fis adj)	30.3	31.8	32.4	33.0	33.6	34.3	34.9	35.7	36.4	37.1	37.8
Income Tax (after fis adj)	30.3	32.3	31.5	29.6	28.6	26.9	26.0	25.8	25.2	24.4	23.6
National Insurance Contributions	20.4	20.6	20.9	21.2	21.6	21.9	22.3	22.6	23.0	23.4	23.8
Specifics Inc VED	16.1	16.4	16.9	17.3	17.6	18.0	18.3	18.7	19.1	19.5	19.9
VAT + Car Tax	15.8	16.1	16.9	17.6	18.1	18.8	19.4	20.0	20.7	21.3	22.0
LA Rates	11.7	11.8	11.9	12.0	12.1	12.2	12.3	12.4	12.5	12.6	12.7
North Sea Taxes	8.5	9.0	8.7	8.8	7.5	7.6	7.5	6.9	6.7	6.3	5.8
Corporation Taxes	4.8	4.2	4.4	4.8	5.4	6.1	6.4	6.8	7.4	7.8	8.5
NIS	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital Taxes	1.1	1.0	.9	.8	.7	.7	.6	.6	.6	.5	.5
Gas Levy	.5	.5	.5	.5	.4	.4	.4	.4	.3	.3	.3
Misc Exp. Taxes Inc Stamp Duty	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Total Taxes	112.2	114.8	115.6	115.5	115.0	115.6	116.3	117.3	118.6	119.3	120.3
Total Taxes (Check)	112.2	114.8	115.6	115.5	115.0	115.6	116.3	117.3	118.6	119.3	120.3

CONFIDENTIAL

1% POST 1988-89

TABLE 5B

TAX

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
As % GDP at Market Prices											
Income Tax (before fis adj)	10.6	10.8	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Income Tax (after fis adj)	10.6	10.9	10.4	9.6	9.1	8.4	8.0	7.7	7.4	7.1	6.7
National Insurance Contributions	7.1	7.0	6.9	6.9	6.9	6.8	6.8	6.8	6.8	6.8	6.7
Specifics Inc VED	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
VAT + Car Tax	5.5	5.5	5.6	5.7	5.8	5.9	5.9	6.0	6.1	6.1	6.2
LA Rates	4.1	4.0	4.0	3.9	3.9	3.8	3.8	3.7	3.7	3.6	3.6
North Sea Taxes	3.0	3.0	2.9	2.9	2.4	2.4	2.3	2.1	2.0	1.8	1.6
Corporation Taxes	1.7	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.3	2.4
NIS	.5	.5	.5	.4	.4	.4	.4	.4	.4	.4	.4
Capital Taxes	.4	.3	.3	.3	.2	.2	.2	.2	.2	.2	.1
Gas Levy	.2	.2	.2	.2	.1	.1	.1	.1	.1	.1	.1
Misc Exp. Taxes Inc Stamp Duty	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5
Total Taxes	39.1	38.8	38.3	37.6	36.7	36.1	35.6	35.2	34.9	34.4	34.0
Total Taxes (Check)	39.1	38.8	38.3	37.6	36.7	36.1	35.6	35.2	34.9	34.4	34.0

c

John made your own position very clear to both CST's office & GE.

MOM 27/1

PWP

CHIEF SECRETARY TO THE TREASURY

discussed at prayers 30/1

JGW

? to discuss at 9.30

JGW

FROM: JOHN GIEVE

DATE: 27 January 1984

PRINCIPAL PRIVATE SECRETARY

cc Mr Bailey
Mr Battishill
Mr Hart
Mr Hall
Mr Salverson
Mr Ridley
Mr Lord
Mr Portillo

PRAYERS

PUBLIC EXPENDITURE WHITE PAPER

We spoke briefly before you and the Chancellor left for Rome about Mr Hart's minutes of 26 January on publication of the PEWP and the TCSC. I spoke subsequently to Charles Marshall in the Lord Privy Seal's Office (who in turn consulted the Chief Whip's Office) and this morning the Chief Secretary discussed the issues with Mr Bailey and Mr Hart, and Mr Monaghan.

Charles Marshall confirmed the view that Mr Biffen had expressed twice to the Chief Secretary that it would be a mistake to try to avoid a debate on the White Paper. I gather that the Chief Whip shares this view. The Chief Secretary has spoken also to Mr Higgins and he takes it as read that there will be a debate. In these circumstances, the Chief Secretary's strong view is that we should accept the inevitable gracefully and concede a debate. He sees no advantage, therefore, in making an oral statement as well. He doubts whether there will be any difficulty in following last year's model ie announcing publication of the White Paper on 16 February in response to a written PQ, holding a press conference that afternoon, and having the debate later on after the Select Committee has reported. I gather the Business Managers would be happy with that too. Before making a final decision, however, the Chief Secretary thinks that Terence Higgins needs to be asked whether, in the light of the publication date of 16 February, he still wishes to have a debate.

Subject to the Chancellor's comments, the Chief Secretary has asked me to write on the lines of the attached letter to Charles Marshall on Monday.

JG

JOHN GIEVE

FROM: A M BAILEY

DATE: 30 January 1984

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Hart
Mr Riley
Mr G P Smith
Mr Melliss
Mr Ridley

BAILEY 30/1

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

I attach a revised draft paper and annex, following your meeting this morning. Mr Riley has produced the figures in the annex, and warns that they are subject to further checking (the computer is having a go-slow). Some comments:

i. Paragraph 4, on the MTFS, might be transferred to the economic strategy paper, which you are also planning to discuss tomorrow.

ii. The question of the PSBR path, touched on in this paragraph, was discussed briefly this morning, and you will want to come back to it in the light of the numbers.

iii. The table attached to the annex, specimen annual figures for one case, is not for circulation to colleagues (or eventual publication); but it is intended to indicate the format of a table which would show how the final-year figures are reached.

iv. We have not at present produced figures for the intermediate case (½% expenditure growth) or referred to it explicitly in the text - but it is implicit in paragraph 7 as a possibility and could be easily interpolated.

2. You said you would like a further discussion on all this tomorrow.

AMB

A M BAILEY

? precautions

DRAFT (30/1/84)

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM/MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER or C/S plus CST ?

DRAFT PUB. EXP. & TAXATION IN THE LONGER TERM. PAPER

The Government has been seeking to encourage public debate on the longer-term prospects for public expenditure. Our objective is to reduce the burden of public spending and taxation, and we shall achieve this more effectively if the changes are planned over a period, rather than settled ad hoc from year to year in each Survey. Hence we have set in train various forms of review, notably the review of longer-term pension prospects chaired by the Secretary of State for Social Services. We need to create the right climate of public opinion, by emphasising the rewards from reining back public expenditure in the shape of a lower burden of taxation.

2. For this reason, I believe the time has come for the Govt to make a fuller contribution ~~have expressed willingness to contributed~~ to the public debate, than ~~There is some pressure from the media for a more systematic Government contribution.~~ as our supporters inside & outside the House are constantly urging us to do. But colleagues will recognise that this is not without difficulties;

i. Different expenditure programmes have enormously varying timescales - for example, the full burden of the State earnings-related pension scheme does not arise until well into the next century.

ii. In projecting ahead for a decade or more, there is bound to be a very wide range of uncertainty - for example about the rate of growth of output. This can be handled by giving alternative projections, but the risk is that these will blur the message.

iii. Some key economic assumptions - for example the rate of decline in unemployment, or growth of real earnings - will be misrepresented as forecasts or even objectives.

iv. The 1982 work on long-term public expenditure, which was leaked to the Press, shows the difficulties of projecting individual programme totals, when forecasts of future policy reactions are misunderstood, either as Government commitments or as ~~deliberate~~ Treasury ~~exaggeration.~~ gloom-mongering.

3. To meet these problems I now propose a different approach. We shall in any case need to publish a new medium term financial strategy (MTFS) with the Budget, and I intend that this should run forward for 5 years, to 1988-89. This is discussed in my other paper, on the economic strategy (C(84)). As part of the monetary framework, it will need to give PSBR projections for the 5-year period. This in turn will require public expenditure figures for two further years beyond the 1986-87 horizon of the Public Expenditure White Paper (PEWP). What I propose is that, as part of the background to Budget discussion of the MTFS, we should publish a discussion document projecting public expenditure totals forward, on alternative assumptions, for a further 5 years to 1993-94, and showing what this would mean for the burden of taxation.

[4. In the PEWP we have agreed on cash planning totals which in cost terms we expect to mean broadly a flat path up to 1986-87. For the MTFS, I invite colleagues to agree that this flat path should be projected forward for the remaining two years to 1988-89. My other paper proposes to continue the gradual reduction of the PSBR through the MTFS period - and indeed, with North Sea oil revenues and asset sales likely to be at their peak, there is a strong case for a sharper decline in the PSBR. With the public expenditure total unchanged in cost terms through to 1988-89, and the PSBR down to 1.5% of GDP in that year, we could reduce the non-North-Sea tax burden from its present level of 38.6% of GDP to [35.2]%. But this is still far from satisfactory. We would be reaching the end of our second term of office with the burden of taxation - whether expressed in terms of non-North Sea taxation or of taxation in general - at a higher level than that which we described in 1979 as too high. Nevertheless, I do not believe it would be politically sustainable to plan for reducing public expenditure totals in the two years 1987-88 and 1988-89; my proposal for an unchanged level of expenditure rests on this basis, notwithstanding its acutely difficult implications for our taxation policies]

Discuss

5. I envisage the discussion document on the longer term starting with two introductory sections:

seemingly ~~apparently~~ ~~[inexorable]~~

i. A section on past public expenditure trends, showing the inexorable rise over the past 20 years or so, at an annual average rate of 1½ per cent, right up to last year, so that the total has reached over 40 per cent of GDP. As an inescapable consequence, despite the bonus of revenues from the North Sea, the burden of non-North-Sea taxes has risen from 34.7% of non-North-Sea GDP in 1978-79, to its present level of 38.6%.

Explain why fall in NNS taxes

ii. A section which would recognise the various pressures for further increases in spending over the next decade - eg demography (particularly over-75s on health spending), technology (notably defence and health), capital infrastructure, our own priorities (defence, law and order, health, pensions) and the other demands which continuing economic growth will bring.

?

6. Then the central part of the paper would show how the tax burden can be reduced and prospects improved if these pressures are held in check and the public expenditure totals held constant in cost terms through to 1993-94. The annex sets out some tentative projections, starting from the MTFS base. The main case assumes 2% GDP growth, and shows that with expenditure held constant, the non-North-Sea tax burden would be reduced to 31.3%. This would be somewhat below the level in 1973-74, the end of the previous Conservative administration (33%), though still some way above the level in the early 1960s. It would mean a dramatic improvement in incentives and a powerful boost to the economy. For example, if other taxes were held constant as a proportion of GDP (a rather stylised assumption, which takes no account of other political imperatives) the rate of income tax could be reduced to 25p and allowances raised substantially, bringing the married man's allowance to nearly 60% of average male earnings as against 31% now.

7. Some colleagues may take the view that this is rather an extreme case. It would be possible to illustrate other cases - for example an annual growth in expenditure of ½% or 1% after 1988-89, as shown in the annex. But if we do not leave ourselves room for substantial tax reductions, the rate of GDP growth is unlikely to reach a 2% average, which is substantially higher than the 0.9% achieved over the past decade. The annex takes 1½% GDP growth as a lower variant, and shows that a 1% growth in expenditure would in that case only yield a reduction to about 34% in the non-North-Sea tax burden - which is hardly any improvement on 1978-79, and higher than when we left office in 1973-74.

Conclusion

8. I invite colleagues to agree that we should plan to publish a document at Budget time on this basis. If this is agreed, I propose to circulate a full text for clearance in the next week or so.

On which basis? 0% or ½% or 1%?

ANNEX: PROJECTIONS OF PUBLIC FINANCES TO 1993-94

1. The projections discussed here illustrate various paths of public expenditure over the next decade, and their implications for the burden of taxation. They take as a starting point the path for the economy and the public finances assumed in the MTFS.

2. A key factor in the projections is the assumed rate of economic growth. This affects not only the amount of tax which is collected for given rates and allowances, but also the burden of taxation associated with given paths of public expenditure and borrowing. For the first five years of the projections, to 1988-89, GDP is assumed to grow by an average 2.5% per annum, in line with the MTFS. Thereafter, there are two factors pointing to some slow down in the growth rate: the North Sea sector will by then be contributing minus [0.5%] per annum to total GDP growth; and the growth of the labour supply will be somewhat less than in the first half of the decade.

3. In practice the growth rate after 1988-89 will depend (in part) on the success of policy in bringing down the share of public expenditure and the burden of taxation. Accordingly we consider two cases. In the first, total GDP grows by 2% per annum, equivalent to [2.5%] per annum for the non-North Sea sector. This is somewhat better than average performance over the last 100 years, and significantly better than the 1.25% per annum GDP growth in 1973-79. In the second case total GDP grows at 1.5% per annum, equivalent to [2%] for the non-North Sea sector. Higher growth is more likely, the greater the ~~restriction~~ reduction in the tax burden.

(or minus [illegible] 1973-83)

4. The path of North Sea tax revenues has an important bearing on the burden of non-North Sea taxation. Apart from the profile of production, the behaviour of real oil prices is of key importance. It is assumed here that after falling over the next two years or so in real terms, they flatten off and then start to rise again as the balance of supply and demand becomes progressively tighter. From 1988-89 they may be rising by 2-3% per annum, but even so North Sea revenues fall from 3% (or more) in 1984-85 to about 1.5% in 1993-94 as output falls.

5. Another important feature of the projections is the path of net debt interest payments. This reflects the paths of public sector borrowing and interest rates. On the latter, some fall in real interest rates from present high levels is to be expected, with the path depending on the course of the PSBR and world interest rates. Falling

inflation also points to lower nominal rates. If stable prices are achieved by the end of the period and real interest rates have come down to more normal levels, then net debt interest may fall from about 3% in 1983-84 to a bit under 1½% in 1993-94. This more than offsets the fall in North Sea taxes.

6. Falling inflation and interest rates require a reduction in the PSBR as a percentage of GDP. [We assume, consistently with the MTFS, that it comes down to 1.5% by 1988-89. Over the following five years, as a economy approaches price stability, a further fall to 1% is assumed].

7. It follows from these assumptions that the non-North Sea tax burden can be lightened to the extent that the fall in public expenditure relative to GDP exceeds the required reduction in the PSBR. By 1988-89, even if the public expenditure planning total is held flat in cost terms - in line with the MTFS, but 2 years longer than in the Public Expenditure White Paper - the non-North Sea tax burden would be some way [0.5%] above its level in 1978-79*. The figures are shown below.

The Burden of Taxation in the MTFS period

	1978-79	1983-84	1988-89
Non-North Sea Tax		38.9	[35.2]
Total Taxes		39.1	[35.5]

8. By 1993-94, some further reduction in the tax burden should be possible if the growth of public expenditure is held in check. Figures are presented here, for the two GDP paths discussed earlier, on three different assumptions about public expenditure. The three assumptions are for growth in the planning total of respectively zero, 0.5% and 1% per annum in real [cost] terms after 1988-89. The tax implications are summarised in the table below.

**The burden of non-North Sea taxes is defined as non-North Sea tax revenues as a share of non-North Sea GDP. It falls more than the share of non-North Sea taxes in total GDP because of the declining contribution of North Sea output total GDP. Recent data for the tax burden are as follows:

1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
36.5	36.4	35.4	34.7	35.7	36.9	39.6	39.5	38.9

Assume take [illegible] one @ a time
NB 1978-79 Benchmark

The Burden of Non-North Sea Taxation in 1993-94 (Total taxes in brackets)

Public Expenditure Growth (pa)

GDP growth (pa)	o	0.5%	1%
1.5%	32.1		33.8
	(32.7)		(34.3)
2%	31.3		33.0
	(31.9)		(33.5)

9. If the public expenditure planning total were to be held flat, the burden of non-North Sea tax could be brought down to well below its 1978-79 level of 34.7% by 1993-94. The higher growth assumption is more likely to be the appropriate one in this case. But even so, the tax burden would be very little if at all lower than it was in 1973-74, the end of the previous Conservative administration, and still some way above the level of the early 1960s.** With 1% growth of public expenditure the picture would be significantly worse. After a decade of restraint, the tax burden would be only marginally lower than the 1978-79 figure, which was widely held to be excessively high~~er~~.

?

[10. The pattern of taxation which would be possible in each of these cases depend on the priorities to be accorded to reduction in particular taxes. The government has already made some commitments - eg to abolish NIS. But for purposes of illustration, it is helpful to examine the implications for ~~personal~~ income tax~~ation~~ on the assumption that all other non-North Sea taxes - eg indirect taxes, rates and national insurance contributions - remain unchanged as a share of GDP.

11. The biggest reduction is possible with flat public expenditure and 2% GDP growth. In that case, ~~personal~~ income tax could fall from over 10% of GDP now to [3.5%] in 1993-94: at a basic rate of 25p this would permit the married man's allowance to rise to nearly 60% of average male earnings, compared to 31% in 1983-84 and 40-45% in the mid-1960s. At the other extreme, with 1% public expenditure growth and 1.5% GDP growth, the ~~personal~~ income tax share would fall to [5.5%] of GDP.] why not [illegible]. In fact, assumption of taxation: other taxes, [illegible] income tax, are too high ....

** Figures for the (non-North Sea) tax burden in selected earlier years are:

1961-64	1973-74	1978-79
30%	33%	34.7%

6. Then the central part of the paper would show how the tax burden can be reduced and prospects improved if these pressures are held in check and the public expenditure totals held constant in cost terms through to 1993-94. The annex sets out some tentative projections, starting from the MTFS base. The main case assumes 2% GDP growth, and shows that with expenditure held constant, the non-North-Sea tax burden would be reduced to 31.3%. This would be somewhat below the level in 1973-74, the end of the previous Conservative administration (33%), though still some way above the level in the early 1960s. It would mean a dramatic improvement in incentives and a powerful boost to the economy. For example, if other taxes were held constant as a proportion of GDP (a rather stylised assumption, which takes no account of other political imperatives) the rate of income tax could be reduced to 25p and allowances raised substantially, bringing the married man's allowance to nearly 60% of average male earnings as against 31% now.

7. Some colleagues may take the view that this is rather an extreme case. It would be possible to illustrate other cases - for example an annual growth in expenditure of ½% or 1% after 1988-89, as shown in the annex. But if we do not leave ourselves room for substantial tax reductions, the rate of GDP growth is unlikely to reach a 2% average, which is substantially higher than the 0.9% achieved over the past decade. The annex takes 1½% GDP growth as a lower variant, and shows that a 1% growth in expenditure would in that case only yield a reduction to about 34% in the non-North-Sea tax burden - which is hardly any improvement on 1978-79, and higher than when we left office in 1973-74.

Conclusion

8. I invite colleagues to agree that we should plan to publish a document at Budget time on this basis. If this is agreed, I propose to circulate a full text for clearance in the next week or so.

CONFIDENTIAL

ZERO GROWTH IN PUBLIC EXPENDITURE, 2% GDP GROWTH

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Growth of GDP (MP)	2.7	3.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Growth of Non-North Sea GDP (FC)	2.2	2.8	3.2	3.1	2.9	2.3	2.3	2.7	2.4	2.6	2.5
GDP level (£bn 1982-83 prices)											
As share of GDP											
Public Expenditure Planning Total	39.9					35.2					31.9
Net Debt Interest	3.1					2.4					1.4
North Sea Tax	3.0					2.4					1.6
Non North Sea Tax(i)	35.8					33.1					30.3
Other (Net)	0.8					0.6					0.4
PSBR	3.4					1.5					1.0
Non-North Sea Tax burden	38.6					35.2					31.3
Total Tax burden	38.8					35.5					31.9

(i) After fiscal adjustment

SECRET AND PERSONAL

3/7/84

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

Following my minute of 26 June, I said I would minute further on electricity prices.

2. This year's public expenditure situation has deteriorated in recent weeks. You will recall that the previous forecast was for an overshoot of £½ billion on total public spending. It is becoming increasingly clear that local authority capital overspending will, unless we take swift action to contain it, increase this figure by anything between £¾-1¼ billion. Further, the earlier forecast assumed that the miners' strike would be over by the end of July. That assumption is looking increasingly improbable. The strike has cost the public sector about £300 million to date and these costs are mounting at the rate of £30 million a week.

3. We are considering urgently how to deal with the huge overspend on local authority capital. On the costs of the miners' strike, we have so far deferred any action on electricity prices. Given the seriousness of the overall public expenditure I believe that we must now take action.

4. As a direct result of oilburn, the CEGB's costs are now running some 10 per cent higher than was foreseen at the start of the year. To the end of June the miners' strike had cost them some £250 million. While this would fully justify a corresponding 10 per cent increase in electricity prices, it may be argued that at least part of the cost should fall on the Reserve. But I believe we should at least agree to an increase of 6 per cent to all consumers.

5. This is the increase which I believe would be in any case needed next April to validate the decisions on nationalised industries taken at E(A) this morning. Bringing forward the increase in this way would mean that, if the strike lasted another month or so, we would not need another electricity price increase for at least 12 months. Of course if the strike lasted longer we might have to reconsider the position earlier than that.

6. We need to take decisions now to enable the price increase to come into effect at the beginning of September. Bringing forward the increase in this way would of course also bring forward an addition of something rather less than 0.2 percentage points to the RPI. It would generate some £250 million in 1984-85 and so make a valuable contribution to our public expenditure problem; and it should avoid the need for further discussions about electricity price increases in April 1985 in the Public Expenditure Survey.

7. Needless to say, it would be desirable to ensure a reasonable gap between any action we decided to take on local authority capital spending and the announcement of an increase in electricity prices. In any event the latter should be announced by the electricty industry itself and presented as action by the CEGB in respect of the additional cost it is incurring to ensure electricity supplies to its customers.

N.L.

N.L.
3 July 1984

FROM : S A ROBSON
DATE : 6 JULY 1984

CHANCELLOR OF EXCHEQUER

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

I understand the Prime Minister has asked you to circulate anote in the light of your minute to her of 3 July.

2. This is attached together with a covering letter from your Private Secretary on the circulation of the note.

3. Mr Walker will no doubt be difficult on this. He will presumably argue on two fronts. First, the tactical aspects of putting up electricity prices before the end of the strike. The answer here is that there is now pretty general awareness of what the strike is costing and the public will not be surprised to find the Government has to pay for it somehow. The proposed price increase does not imply anything about the length of the strike as it would do no more than cover the CEGB's extra costs to date.

4. Second, on substance he may argue that the ESI do not yet need a price increase as they can absorb the extra costs arising until the end of July and still achieve their financial target. He may also say the ESI can keep within its EFL. As far as the financial target is concerned, the public expenditure totals for 1984-85 were based on the ESI exceeding its financial target. We now have a major public expenditure problem this year. As regards their EFL, the outcome depends critically on the extent to which the CEGB rebuilds stocks. With limited rebuild (e.g. as a result of the strike continuing for some time), this could be true. But it does not help the overall public expenditure position as the ESI's gain from slow stock rebuild is offset within the public sector (by the NCB EFL losses) while their extra oil burn is a net cost to the public sector.

5. He may also say that the argument about bringing forward the April 1985 price increase prejudges the next financial target. The ESI are planning on a price increase in April of 3.3 per cent and a real return in 1985-86 of 1.4%.

6. The answer is that we are not prejudging the target as this will last for more than one year. A 6 per cent price increase would produce a return in 1985-86 of something over 2 per cent which is about the same as the return envisaged before the miners strike for the period of the present financial target (which ends this year). Nobody can seriously expect the next financial target to be set below the anticipated rate of return in the present target period - which was itself a reflection of the view of economic pricing taken in the light of the Coopers Report.

7. You need to be careful on these points. The figure for the rate of return in 1985-86 is calculated on the IFR figures as they stand. A Treasury success on cost savings in the IFR could raise the return above 2 per cent. Clearly, in arguing for a 6 per cent price increase, we do not want to foreclose options elsewhere in the IFR.

8. You will also need to avoid saying that we still stand by the Coopers view of economic pricing. It is now pretty clear that this view was closer to SRMC than LRMC and we will want something more over the IFR period.

9. I understand the note is not to be circulated until after the E(A) meeting on 10 July to discuss local authority capital expenditure. The second paragraph may need revising in the light of that meeting.

10. You also plan to discuss the position bilaterally with Mr Walker. You may like to consider whether (in my absence) Mr Webb should take one of Mr Walker's officials through the paper.

SAR

S A ROBSON

SECRET
AND
PERSONAL

Andrew Turnbull Esq No 10

~~DRAFT~~ LETTER TO ~~PS/PRIME MINISTER~~

~~FROM PS/CHANCELLOR~~

PUBLIC EXPENDITURE

I attach a note which the Chancellor would like to discuss with the Prime Minister and other colleagues.

~~I should stress that~~

2. ~~In~~ In view of the sensitive subject matter the Chancellor thinks it ~~is~~ important that no copies should be taken of the note ~~and~~, that ~~the note~~ the note should ~~is~~ not ~~to~~ be allowed out of private offices, and that officials should only be allowed to see it on a strict need to know basis.

3. I am sending copies ~~copying~~ to Callum McCarthy (DTI) ~~the Private Secretaries of the Secretary of State for Trade and Industry, the Secretary of State for Energy and the Secretary of State for Scotland.~~ Micheal Reidy (Energy) and John Graham (Scottish Office).

~~[DP]~~ DLCP

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

The public expenditure ~~position~~ outlook for the current year, in 1984-85, ~~has deteriorated badly.~~ has become very worrying. There is upward pressure in ~~many~~ a number of areas but two stand out - local authority ~~(capital and current)~~ expenditure, both current and capital, and the cost of the miners' strike. ~~Last week's unwelcome rise in interest rates shows that the markets are well aware of the general problem.~~

2. We are discussing separately the huge overspend on local authority capital expenditure /_to be completed as necessary after the E(A) meeting on 10 July_7.

3. The miners' strike has cost the public sector about £300 million to date and these costs are mounting at a rate of some £30 million a week.

4. ~~Ministers~~ We have so far deferred a decision on increasing electricity prices to recover the costs of the miners' strike. Further delay will severely limit the extent to which costs can be recovered in 1984-85. Consultations with the Consumer Councils means it takes about 6 weeks to bring electricity price increases into effect.

5. The electricity industry is incurring substantial additional costs as a result of its increased use of oil. The CEGB's bill for additional oil to the end of June was some £450 million. At the same time they used less coal and, taking this into account, their extra costs to the same date were some £250 million, and are rising at £20m a week.

6. Two points are worth noting about these savings on coal. First, the CEGB's savings are no help to the PSBR. The CEGB savings from using less coal are offset in PSBR terms by NCB corresponding reduction in sales. Second, as coal stocks are rebuilt after the strike, the CEGB will find that its present savings on coal purchases are reversed and eliminated.

7. These extra costs cannot be met from the public expenditure Reserve. Although under £½ billion (e.g. to cover the Health Service Review Body pay awards) has so far been formally charged to the Reserve, which began the year at £2.75b, local authority current expenditure is likely to take up £1.8 billion, £425m will be required for the EC settlement, and there are a large number of other bids some of which will be irrestible - quite apart from the prospective overspend on local authority capital, which is in the range of £½-1½b.

8. In these circumstances it is necessary to make an early increase in electricity prices. The best approach would be for the electricity industry to bring forward the price increase normally due in April 1985. No decisions have yet been taken on the size of this increase, or on the ESI financial target for 1985-86 and for future years.

9. As the costs of electricity generation are now some 10 per cent higher than expected, this in itself would justify a 10 per cent price increase. ~~I accept that it is right to take~~ But Ministers may feel that, on political grounds, this would be too large an increase. I wd not press for so large a figure; it may be right for the industry temporarily to bear part of the cost itself.

10. An increase of 6 per cent from the beginning of September for all consumers would ~~generate~~ produce roughly £250 million in 1984-85. ~~This~~ It would add something less than 0.2 percentage points to the RPI; but this is only a bringing forward of the RPI effect which would in any case have followed a price increase in April 1985. On the ESI's present figures for 1985-86, it would represent a return of something over 2 per cent – similar to that which was about the same as the return expected anticipated for the period of their current financial targets, (ending this year) before the miners' strike.

[11. Bringing forward the price increase in this way would avoid the need for further discussions about electricity price increases in April 1985 in the Public Exepdntiure Survey. In addition, even if the strike lasted another month or so, there would not need to be another price increase for at least 12 months.]

12. The increase would ~~should~~ be announced by the electricity industry itself and presented as action by the Boards in respect of the additional costs they are incurreing to ensure uninterrupted electricity supplies to their customers.

But how to manage this?

~~surely~~ Don't we need to say something on that?

CHANCELLOR OF THE EXCHEQUER

C

Where do we stand
A) on the electricity
prices paper?

Have you spoken to
B) Mr Walker?

DWP

As to (A) I have amended
the Paper process urgently.
In particular, I have deleted
para 10 – this is something
I can concede, if need be,
at the mtg. I have also added
a new ~~para 10~~ para @ the end.
The minute is still procedurally
defective. As far as I can
over

Recall, I think it is to go
to the PM, cc Messrs
Walker, Tebbit and Younger.
Or was it to be a
paper for E(A)? I think
not. Sir Andrew will
remember. ~~At~~ the moment,
however, we are in a
procedural vacuum — but
the way ahead was
agreed.
As to B, I will speak to
Mr Walker on Monday.
(margins of Minc 10)

C

Margaret, I think the order of this is wrong. ~~and~~

[It also shd be written more clearly as a ~~te~~ paper by you.]

Para 7 (modified as necessary) surely shd come more or less first.

Then 1.a capital

then para 3

then paras 5 & 6

then para 4

I've also marked a no. of further pts. Shall we ask for a redraft? [illegible]

Yes: a strange proposal; an option suggestion I would speak to Peter: ~~[illegible]~~ no [illegible] for [illegible] the speech [illegible] officials @ this stage. ~~[illegible]~~ [illegible] talks (NCB/NUM) on Monday, the note says [illegible] on whether [illegible] M.

FROM: M C SCHOLAR

6 July 1984

CHANCELLOR OF THE EXCHEQUER

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

(Below) 1. I have contributed to the paper Mr Robson is putting to you tonight on electricity prices but there are two points I should like to add.

2. I have included a pretty specific paragraph on the Reserve, which perhaps reveals more than you will think prudent. I have done so because I think that, without such a paragraph, your paper will get nowhere: colleagues will simply not believe that we face a public expenditure problem of a size to warrant the action proposed (here <u>and</u> on local authority capital). Mr Bailey shares this view.

3. I would prefer deletion of paragraph 11. I recognise that you will see attraction in retaining this paragraph, because no further price increase for at least 12 months is a big selling point to colleagues. But, as another submission tonight from GEP shows, we are nowhere near a list of cuts for 1985-86 which, realistically, we think will bring expenditure below the £131.7b agreed by Cabinet yesterday. So I would be most reluctant to say anything now which would make it more difficult to propose a further price increase in April 1985, if the public expenditure discussions in September/ October are driving us in this direction.

MCS

M C SCHOLAR