

*Prime Minister*

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i) The Chancellor wants to circulate the accompanying papers tomorrow (Friday)

Are you content?

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

*Given orally  
PM.*

ii) He wants your guidance on whether to go for £5½ bn or £6½ bn cuts in 1980/81. He prefers £6½ bn in order to avoid tax increases and an increasing ratio of public expenditure to GDP. (See para 15)

PUBLIC EXPENDITURE SURVEY

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We are due to discuss at Cabinet on 12th July the report on options for reducing expenditure which officials were asked to prepare on 24th May. I attach (at flag A) a draft paper by me on the economic background and (at flag B) a draft paper by the Chief Secretary putting forward proposals for reductions in expenditure. To give colleagues time to consider these papers, we ought to circulate them in final form before the weekend.

2. The Cabinet asked officials to prepare options for reductions in each Department's share of each programme of 7½ per cent in 1980-81 rising to 17½ per cent in 1982-83, or the cuts agreed in Opposition when these were larger. We excepted defence, law and order, and expenditure on the National Health Service (but we did not rule out increases in charges).

3. The medium-term outlook for the economy described in my paper suggests that we will need reductions of this order if we are to get close to achieving our objectives for taxation, money supply and the PSBR. But not surprisingly, some of the options present substantial difficulty, especially the large cuts necessary in later years to get spending back to the 1977-78 level by 1982-83. Particularly difficult are the cuts required in the social security programme which on present plans would be nearly £4000 million higher in 1982-83 than in 1977-78. To achieve those cuts would involve substantial reductions in the real levels of benefit. If the social security reductions

/cannot be



cannot be fully achieved, a large burden of adjustment is thrown onto other programmes, some of which would have to be brought well below their 1977-78 level.

4. Clear also is the need for success in negotiating reductions in our net contribution to the EEC budget, which otherwise looks like being over £600 million higher in 1982-83 than in 1977-78.

5. We need, and without loss can take, more time to consider these reductions in the later years of the period. The Chief Secretary's paper therefore concentrates on the decisions required for 1980-81. Operationally we need early decisions on 1980-81 so that we can give notice, especially to the local authorities, of the large reductions required. We should return to the later years in the autumn.

6. As at present drafted, the Chief Secretary's paper contains proposals designed to cut the plans for 1980-81 in last Government's White Paper by £5-5½ billion at Survey prices, as follows:-

	£ billion
Net reduction in Departments' programmes	3½
Reduction in contingency reserve	¾
Reduction in nationalised industries' financing requirements and further savings from Civil Service review	½
Sales of assets	½
	5½

7. Cuts of this order would reduce the planning total to about £½ billion below what (following the Budget cuts) we are now expecting for 1979-80. It would thus maintain progress towards our longer-term aim for public expenditure.

/8. But



8. But it will not be easy. Cuts of this size are larger than we envisaged when in Opposition. Many will be highly contentious. Some involve legislation. There are cost of living increases, including rents and nationalised industry prices. They will reduce the standard of many public services, and involve difficulties over redundancies (including closures in the loss-making nationalised industries), and opposition from many of the local authorities who will have to contribute a large part of the reductions.

9. To obtain the figures indicated the Chief Secretary has had to take credit for virtually all the options for reductions which Departments put forward, omitting only some of those on the social security programme and other programmes which it seemed quite unrealistic to envisage achieving by next year. He has ruled out all additional bids except those which appear unavoidable, such as the consequences of the social security uprating decisions we announced in the Budget and the increase in our contribution to the EEC budget: if we are successful in negotiating a reduction in our contribution to the 1980 budget, it will involve a refund in the following year and will not significantly affect our expenditure until 1981-82.

10. However, cuts of this order, difficult though they are, may not be enough to carry through our tax strategy. The calculations of the economic prospects for 1980-81 described in my paper suggest that larger cuts in public expenditure are necessary to avoid the prospect of having to increase the real burden of taxation in next year's Budget if the proportion of the PSBR to GDP is to be reduced. The prospects for output are so depressed in the short term by the outlook for world trade, UK productivity and competitiveness, and the need to reduce inflation, that even after cuts of £5½ billion public expenditure would probably grow slightly as a proportion of GDP.

/11. The



11. The economic projections are subject to a wide margin of error, but they indicate that in order to avoid the prospect of increasing the tax burden next year, we ought to aim at public expenditure cuts of about £6½ billion.

12. The projections which give this result include assumptions about what Clegg will recommend. At this stage this can only be an assumption, but on the basis that the Clegg recommendations will provide for a measure of catching up for public services where pay has fallen behind, the guess is that public service earnings in 1980-81 may grow by 18½ per cent compared with 14 per cent for the private sector. If the Clegg recommendations turn out less than assumed, or if we could revise the amounts or phasing, this would help our problems on expenditure; but whatever the recommendations, the Government are in large measure committed to accepting them.

13. The Chief Secretary has therefore considered what could be done to find another £1 billion in order to make the target for total cuts in 1980-81 £6½ billion. It could be done by adding the following to what is proposed in the present draft paper. The 3 per cent growth in defence next year would start from the volume of expenditure in 1979-80 as now reduced by the VAT and other price increases; this would preserve the principle of 3 per cent annual growth but reduce by £300-350 million the previously published plans for defence in 1980-81. One or two options in the social security programme, which have been left aside as unrealistic, would be pursued, such as trimming back the earnings-related supplement. The remainder would be found by asking the Ministers responsible for the remaining programmes (other than the demand-determined programmes, and health, and law and order) to make a further 3 per cent cut on top of those already proposed in the paper.

/14. This,

S E C R E T



14. This, if fully implemented, would achieve cuts of £6½ million. But colleagues who already doubt whether the options in the Chief Secretary's present draft paper are feasible would raise even greater opposition to going further. This applies especially to Mark Carlisle, who would somehow have to get the local education authorities and the universities to cut a further £200 million from their expenditure on top of the £630 million already proposed.

15. So the Chief Secretary and I would be grateful for your guidance. Should the proposals in the Chief Secretary's paper be limited to those already there, which would get the total below the present estimate for the current year and use almost all the options offered to Departments; or should we go also for the additional £1 billion? The Chief Secretary's and my inclination is to go for the more ambitious target.

16. If you would like a word about this, we are of course at your service.

17. I am copying this minute to Sir John Hunt.

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

(G.H.)

5 July, 1979

S E C R E T

RECEIVED



5 JUL 1979



GEORGETOWN

RECEIVED

PUBLIC EXPENDITURE: THE ECONOMIC BACKGROUND

Memorandum by the Chancellor of the Exchequer

This paper sets out the economic background against which we must consider our future public expenditure plans.

2. It is now clear that the early 1970s saw a major turning point in the development of the world economy, with a dramatic fall in the ability of economies to grow at a satisfactory rate without excessive inflation. The heightened risk of inflation and the problems of energy supply impose severe constraints on growth over the next five years. For most of this period, it is true, this country should be self-sufficient in energy. We cannot, however, escape the deflationary effects of the energy shortage on the world economy. And we will have to contend with the deep-seated domestic problems of low productivity growth, poor trading performance and strong pressures for higher real wages.

3. The economy is currently in a weak condition. Inflation has acquired a considerable momentum and (quite apart from the once-for-all effects of indirect tax increases) is accelerating. Our external competitiveness has worsened seriously in the past three years. The current account is weak, despite North Sea oil. Industrial output and profitability are low. Money supply has been growing at, or above, the top of the old target range of 8-12 per cent, necessitating increased interest rates. The full effects of many of these developments have yet to be felt. If the next five years are to improve on the poor performance of the last five, there is an urgent need to bring about major improvements in inflation, productivity and competitiveness. This has to be done in a world environment that, to say the least, is unlikely to be favourable.

4. Governments themselves cannot regenerate industry. But they can create the conditions in which the market economy can function more effectively. The Budget was the first step in this process. The major objective in this year's public expenditure decisions must be to ensure that this strategy can be continued by leaving sufficient room both for progressively reducing the growth of money supply and for making further real tax cuts. This means that we will need to be very tough in our expenditure decisions.

Inflation and Growth

5. Our first priority must be to bring down the rate of inflation. Without this, all our other objectives for the economy will remain unfulfilled. To this end it is essential to hold to the guidelines we have set for money supply, and, over time, progressively to reduce them. And we must do this without driving interest rates higher or severely restricting credit to the private sector. This means that we must reduce the public sector's deficit, at the very least as a proportion of GDP.

6. These policies will entail accepting a loss of output and employment in the short-term. How severe these losses will be, and how long they will last, will depend partly on how quickly our policies change the climate of expectations in which price and pay decisions are made. There is no past evidence here on which we can draw. Obviously, the more resolute we show ourselves in pursuing our policies, the more quickly will the public build these policies into their expectations. But it would be unrealistic to expect very quick responses. Though there is good reason for hoping that GDP and employment will be rising in the last two years of the Survey period, we cannot look for much growth over the period as a whole.

7. The Treasury's latest projections, which are broadly in line with the underlying assessments made by outside forecasters, indicate a fall in output and a steep rise in unemployment in the early part of the period, with a recovery in the later part as inflation moderates. These projections assume a growth in world trade at about half the pace recorded in the decade to 1973. This itself could be optimistic, particularly for the years immediately ahead. The projections also assume that public expenditure is cut on the scale envisaged in the Chief Secretary's earlier paper (C(79)11), with an adjustment to social security spending to allow for higher levels of unemployment than the initial assumptions shown in Annex C of C(79)[ ]; and that tax allowances, bands and specific duties are fully indexed. The growth of money supply is assumed to be progressively reduced, to 7 per cent in 1983. On these assumptions the projections show the economy eventually moving on



to what should be a sound and sustainable growth path. The speed at which this takes place will depend on how quickly our policies lead to a change climate of expectations. But the intervening period is bound to be a very difficult one, in which we will have little room for manoeuvre.

8. The poor prospects for growth over the next three years or so reflect the combination of a number of adverse developments.

- World trade is depressed, and is likely to remain so for some considerable time. The latest oil price increases seem certain further to curtail world growth.
  
- Productivity in UK industry is extremely low. On the latest evidence it looks as though the estimates of productivity growth included in the last Government's public expenditure White paper, though substantially lower than earlier estimates, were not low enough. Our tax reductions, and other measures to restore incentives, should in time help to improve productivity. But in the next few years these beneficial effects are likely to be more than offset by the impact of falling output and investment. Excluding North Sea oil, we cannot count on output per head rising at more than half the 2½ per cent averaged in the year 1964-74.
  
- The trading performance of our manufacturing sector is poor, and its cost competitiveness has been seriously weakened by increases in pay far in excess of productivity. In the short run this loss of competitiveness has been increased by the appreciation of the exchange rate.

- The need to reduce inflation will entail tight fiscal and monetary policies that will reduce the pressure of demand.

In time, the adverse factors should be overcome; but it seems clear that the next three years are going to be a very difficult time.

Prospects for the PSBR and Taxes

9. These poor prospects for growth together with the likelihood of differentially high pay increases in the public services in the next two years as a result of comparability awards mean that substantial reductions in the volume of public expenditure will be necessary if the PSBR is to be contained. Increased pay is a particularly important element in 1980-81: it is assumed in the projections, on the basis of existing commitments and a judgement on the likely outcome of the Clegg reviews, that earnings in the public services will be 18½ per cent higher in that year than in 1979-80 (implying an increase of £4½ billion in the public service pay bill). Earnings in the private sector are assumed to be about 14 per cent higher and retail prices about 13½ per cent higher. These assumptions for earnings are of course highly uncertain, but given the commitment to honour comparability awards it would be imprudent to count upon a significantly more favourable outcome for the public services. Increases in pay and prices thus add enormously to the projected total of expenditure at current prices in that year.
10. The table below summarises the Treasury's projections of the PSBR (on the fiscal assumptions noted above of full indexation of taxes and public expenditure cuts on the scale envisaged in C(11)79).

Public Sector Accounts

(£ billion at current prices)

	<u>1979-80</u>	<u>1980-81</u>
General government receipts	76.2	87.7
General government expenditure	85.1	97.0
Public Sector Borrowing requirement	8.3	9.2
PSBR as % of GDP at market prices	4.4%	4.2%

11. For later years, the margins of uncertainty are of course enormous, but the projections suggest that the PSBR would remain around its 1980-81 proportion of GDP in the following year (implying a rise to about £10 billion in current prices) and would decline quite sharply in the final year of the Survey.

12. The implication of these projections is that the levels of public expenditure implied in C(79)11, which would involve cuts from the inherited plans of about £6½ billion in 1980-81 (at 1979 Survey prices), would leave no room for real tax cuts in the 1980 and 1981 Budgets.

13. Progress towards our objective of reducing the basic income tax rate to 25p would require further cuts in public expenditure (or a further switch to indirect taxes, which would put up prices). The size of the additional cut would depend partly on its composition, but if the cut were wholly on goods and services, as a rough rule of thumb every 1p off the standard rate in 1980-81 would entail a cut of £0.7 billion in expenditure at 1979 Survey Prices.

[14. The cuts proposed for 1980-81 in the Chief Secretary's paper fall some way short of those envisaged in C(79)11 and thus mean that we risk having to make real increases in taxation in next year's Budget. If we did not achieve even these cuts we could face an extremely difficult situation as the Budget approaches - having to choose between raising taxes substantially and abandoning our strategy for reducing the PSBR and money

supply growth: that would of course be fatal to our chances of getting inflation under control, and there is no other way.]

Conclusion

15. We face a very difficult economic prospect over the next few years. There is little hope of any significant growth of the economy until inflation has been substantially brought down. To this end, it is vital to hold to our policies of containing the PSBR and reducing the growth of money supply and to establish a firm conviction that we intend to do so. [Even with expenditure cuts of the order implied in the Chief Secretary's paper there is a very real risk that this would entail raising taxes in the next Budget.]

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PUBLIC EXPENDITURE, 1980-81 TO 1983-84  
Memorandum by the Chief Secretary, Treasury

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We took and announced in the Budget our public expenditure decisions for the current year 1979-80. We must now come to grips with decisions on the public expenditure plans for 1980-81 and subsequent years.

2. Our general approach is clear: we are going to make large reductions in the public expenditure plans which we inherited. This is essential to our strategy generally, and especially to our key aim of reducing direct taxation and overcoming inflation.

3. Factual material is in the two survey reports by officials, "The Inherited Plans" and "The Scope for Reductions": the former is available to colleagues in their Departments, the latter is circulated separately as C(79) . Also relevant are the review of nationalised industries' investment and financing (C(79) ), and two other papers which will be coming forward in due course: the Lord President's report on further action to reduce the size of the civil service, and the Financial Secretary's report on disposals of assets.

Decisions to be taken

4. I propose that initially we concentrate on 1980-81. This paper is concerned only with that year.

5. The full Survey covers public expenditure plans for all years up to 1983-84. We must certainly address ourselves to the problems of these later years, and I will bring forward proposals to that end after the holidays; but it is more urgent to come to decisions now about 1980-81. This we should aim to do before the summer holidays, not only to facilitate orderly preparations for the Rate Support Grant negotiation in November, and for the Parliamentary Estimates and fixing of cash limits, but because successful

implementation of cuts on the scale at which we must aim will be aided by early notice to those concerned, especially local authorities.

6. The decisions we take now about plans for 1980-81 will be subject to such modification as may later be required by the operation of cash limits. Our cash limits policy we shall be discussing separately. If our financial objectives, and the development of pay and prices, do not allow as much cash for public expenditure programmes as the planning decisions now under discussion would imply, the plans will have to be modified accordingly.

#### Publication

7. The established procedure is that the results of the annual Survey are published about the turn of the year in a public expenditure White Paper covering all the years of the Survey. I propose however that we postpone for the moment decisions on the timing and form of the White Paper. Let us settle the substance first.

8. However, if the relevant decisions about 1980-81 are to be communicated to local authorities and others, it will be for consideration whether a statement of all the main changes proposed for 1980-81 should be made public quite soon, in advance of the White Paper, so that proposals becoming public concerning individual programmes can be seen in the context of a general policy for next year.

#### Objective for 1980-81

9. In 1980-81 we must at least maintain the trend we have set in 1979-80 and stay on course for bringing expenditure back to the 1977-78 level by 1982-83. In the current year the decisions we have taken should ensure that public expenditure outturn is no higher than in 1978-79. We must achieve some reduction in that level in 1980-81.

10. Table 1 of the report "The Scope for Reductions" shows that, if no cuts were made, expenditure in 1980-81 would total around £74½ billion, <sup>25 billion</sup> more than the expected outturn in 1979-80.

11. Accordingly we must aim at reductions of not less than £5½ billion in the inherited plans <sup>for 1980-81,</sup> including sales of assets. The Chancellor of the Exchequer's paper indicates that even with a reduction of this size we may not be able to avoid substantial increases in the burden of taxation in the next Budget.

#### Proposals for action

12. Taking account both of the evident difficulties of some of the options and of such additional bids as look unavoidable, I propose that each Department should be asked to make for 1980-81 the net changes from the plans in Cmnd 7439 listed in Annex A.

13. If any of my colleagues can offer more, that would be welcome. Subject to that, these reductions would amount to about £3¼ billion. In addition, I propose to cut the contingency reserve, which stands in the inherited plans at £1540 million, by some £¼ billion. Options are being put forward in the nationalised industries' financing and investment review (C(79) ) totalling some £0.35 billion and savings from the Lord President's review of the civil service might produce some £0.15 billion (beyond the savings included in this memorandum). So these proposals would give total reductions of the order of £5 billion, leaving £½ billion to be made up by further sales of assets.

14. It is for each Minister to decide how he makes up his total of cuts, but I list for illustration in Annex B the options and additional bids which I have had in mind in arriving at the figures I suggest. The brief references in Annex B are elaborated in the main paper on options (C(79) ).

#### Defence

15. We are committed to some increase in defence spending. The baseline figure for 1980-81 already provides for a 3% growth path and would enable us to meet the NATO target in that year without further addition. We cannot afford to repeat in 1980-81 the exceptional £100 million increase given this year.

Law and Order

16. Some increases are necessary in the police, prison and probation services, but we must keep these to a minimum, and find all possible offsetting savings.

EEC Budget

17. Our contribution to the EEC Budget is expected to rise in 1980-81 to £1.1bn, over £600 million higher than in 1977-78. This underlines the importance of negotiating a reduction in our contribution. In 1980-81, our contribution looks like being some £240 million higher than so far provided for, and since any reduction we negotiate in our contribution to the 1980 Budget would not significantly affect expenditure until 1981-82 there appears to be no way of avoiding this.

Health

18. Consistently with the Manifesto commitment not to reduce spending on the National Health Service, we should keep gross spending at its present level but reduce net spending - the charge against public expenditure- by increased charges and possibly other sources of revenue. We cannot afford at present to devote any part of this additional income to increasing the rate of gross spending above that planned by our predecessors. In spending on Personal Social Services, which is not covered by the Manifesto commitment, some gross cuts may be possible.

Housing

19. We need the large cuts here on which we agreed in Opposition. Annex B proposes reductions accordingly. I suggest that we must take the necessary steps to ensure that rents rise faster than earnings in 1980-81, hold the level of new housebuilding approvals to the 50,000 likely to be achieved this year, and postpone, inessential increases in spending on council house improvements and local authority mortgage lending.

Local authorities

20. The reductions required in local authority programmes in 1980-81 imply a cut in the inherited plans of 5% on current expenditure and 27% on capital. They will be difficult to secure, particularly on current expenditure, where the Government



has no direct control. The Consultative Council will discuss expenditure reductions in 1980-81 on 9 July and their views can be reported to Cabinet. We shall need to inform the local authorities as soon as possible of our decisions on 1980-81, to give them time to revise their plans.

21. I have suggested we should not reach decisions yet concerning the later years. However, the strategy for 1979-80 and 1980-81 plainly implies rising reductions after 1980-81. My colleagues responsible for local authority expenditure will wish to consider whether to consult further with the local authorities about the later years, though this should not hold up the decisions about 1980-81.

#### Social Security

22. Social security represents a quarter of public expenditure and, notwithstanding our move to prices-only upratings, is still growing because of demographic changes and the New Pensions Scheme. The full amounts included in the options would require real reductions in the level of pensions and other benefits and possibly, under some scenarios, money reductions too. This would be very difficult. I suggest we should determine now to make the much more modest (though still not easy) level of savings included in Annex A. We should then in the autumn examine the possibilities of larger savings in later years, though the obstacles in the way of finding these are only too apparent. On the other hand, I suggest also that we defer until next April a decision on a November 1980 uprating of child benefit, which is one of the biggest single bids; I have however taken account of the possibility that we may decide on this in considering the size of the Contingency Reserve.

#### Implications for programmes

23. Cabinet will recognise that for most programmes, and in particular housing, education, social security, aid and transport, the effect of the cuts proposed will be a substantial reduction in the planned level of services. In a number of areas there will be political problems in defending the necessary cuts. But I do not see any easier options nor do I believe that a different distribution could significantly lessen the criticisms. We need

all these cuts - the Chancellor's paper suggests we need more - if we are to maintain progress towards our fiscal and monetary objectives.

Legislative requirements

24. Some of the options would require additional legislation in the current session. I have drawn attention to these in Annex B. I recognise the difficulty of this but I suggest that we press forward with the necessary measures, to ensure that the intended savings do not slip into a later year.

End-year flexibility

25. The Ministry of Defence and other spending Departments have suggested arrangements for carrying forward limited amounts of unspent allocations from one year to the next. There are managerial advantages in such an arrangement, but in present circumstances I think that it would have to be subject to three conditions. First, provision for expenditure likely to be carried forward must not add to the public expenditure planning total. Second, it should be limited to expenditure where there is a strong managerial case for carry-over, principally capital expenditure. Third, the scheme should not imply relaxation in the strict observance of cash limits.

26. If Cabinet agree that such a scheme should be explored subject to the three conditions above, I will bring forward proposals which, I suggest, might be discussed in a smaller group of Ministers.

Conclusion

27. I propose that we:-

(i) agree to the aim of achieving a net reduction in the planning total for 1980-81 of not less than £5½ billion;

(ii) agree that, accordingly, there should be net reductions and additions to Departments' shares of programmes in 1980-81 as shown in Annex A, and that I should discuss with the Ministers concerned any difficulties they see in achieving these figures;

- (iii) agree that I should come back to Cabinet in the autumn with proposals for the years 1981-82 to 1983-84;
- (iv) agree that we should explore a scheme which would allow limited carry-over of unspent allocations from year to year, subject to the three conditions in paragraph 25 above.

<u>Department</u>	<u>£m 1979 Survey prices Additions (+) and reductions (-) to Cmnd 7439 revalued, 1980-81</u>
Defence	-
FCO (ODA)	-107 <del>4</del>
FCO (other)	-23
EEC Budget	+236
MAFF/IBAP/DAFS/WOAD	-43
Forestry Commission	-5
Industry	-157
Trade	-15
ECGD	+170
Employment	-478
Energy	-19*
Transport	-235
DOE (housing)	-1144
DOE (PSA)	-44
DOE (other)	-210
Home Office	+10
Lord Chancellor's Department	-4
Education and Science	-630
Arts and Libraries	-28
DHSS (health)	-85
DHSS (personal social services)	-88
DHSS (social security)	-203
HMSO	-7
CSD (civil superannuation)	-
COI	-2
Scottish Office (excl. DAFS)	-335
Welsh Office (excl. WOAD)	-110
Northern Ireland	-128
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\* NCB assistance will be subject of Nationalised Industries' Financing and Investment Review.

∠ Assumes aid programme will carry cost of first "window". If not, correspondingly larger cut and transfer to D/Trade.

<u>Department</u>	<u>£m 1979 Survey prices Additions (+) and Reductions (-) to Cmnd 7439 revalued, 1980-81</u>
Defence	-
FCO (ODA)	
overseas aid	-107
overseas aid administration	-1
other external relations - pensions	+1
	<u>-107</u>
FCO (other)	
overseas representation	-8
BBC	-4
British Council	-10
other external relations	-1
	<u>-23</u>
EEC Budget	
programme 2.7	+236
MAFF/IBAP/DAFS/WOAD	
CAP (revaluation change)	-30
MAFF/DAFS/WOAD reduced requirements	-15
beef premium	-2
end sheep and potato price guarantees	-9
MLC administration	-2
capital grants and guidance premiums	-20
R & D, ADAS etc	-4
salaries	-2
other minor options	-2
restructure fishing industry	+3
sea fisheries	+3
Thames barrier	+37
	<u>-43</u>
Forestry Commission	
land purchases, new planting, etc	-5

## Industry

reductions already agreed	-35
estimating changes	+24
RDG	-133
regional selective assistance	-1
R & D	-7
selective assistance for individual industries	-5
	<u>-157</u>

## Trade

tourism	-2
export promotion	-2
trade regulation	-9
local authority consumer protection	-3
central and miscellaneous	-1
local authority loan sanction	-1
shipping	+3
	<u>-15</u>

## ECGD

70% foreign financing	-4
estimating changes	+174
	<u>+170</u>

## Employment

reduced requirements	-61
effect of Budget cuts	-159
short-time working	-207
staff - DEM, HSC, ACAS	-1
MSC	-50
	<u>-478</u>

## Energy

changes already made	-4
OSIRG (or alternative if this is not possible)	-3
non-nuclear R & D and energy conservation	-5
nuclear R & D	-7
	<u>-19</u>

NCB assistance will be subject of Nationalised Industries' Financing and Investment Review

## SECRET

3

## Transport

motorways and trunk roads	-20
local capital	-56
local maintenance and car parks	-5
local administration	-8
local subsidies	-43
local concessionary fares	-17
BR and NFC pensions	-73
BR other grants	-6
freight facilities grant	-3
new bus grant	-3
R & D	-1
ports	-2
DVLC, assuming VED abolished*	-4
assistance to PLA	+6

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-235

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## DOE (housing)

council house sales	-40
municipalisation	-130
land acquisition-hold at 1978-79 level	-120
local authority new housebuilding	-445
l.a. housing subsidies-net estimating changes	-1

reductions for realism in option mortgage subsidy, private sector improvement grants, and first-time purchasers' scheme	-130
rent increases £1 faster than earnings	-200
12% reduction in housing association/new towns expenditure	-83
extra rent allowances for changes in fair rents	+5

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-1144

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## DOE (PSA)

running costs	-9
major new works - dispersal (assuming all uncommitted dispersal expenditure cancelled)	-26
major new works - other	-7
administration	-2
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	-44
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## DOE (other)

Regional Water Authorities	-38
British Waterways Board	-2
local environmental services - current	-18
local environmental services - capital	-20
New Towns	-4
administration and research	-7
Community Land	-57
urban programme	-60
Development Commission	-1
Parliamentary building	-1
miscellaneous	-2
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	-210
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## Home Office

consequences of 1979-80 squeeze	-4
ethnic minorities	-5
other community services	-1
abolition of Equal Opportunities Commission*	-2
magistrates' courts - running expenses, net of increased fees and fines	+1
prisons staff	+7
probation manpower	+3
police manpower	+6
central and civilian support	+3
immigration control	+1
computers	+1
	<hr/>
	+10
	<hr/>



Lord Chancellor's Department	
PSA building	-5
legal aid, other current	- $\frac{1}{2}$
verbatim reporting	+1
additional judges	+ $\frac{1}{2}$
	<hr/>
	-4
	<hr/>
Education and Science	
under fives*	-70
school transport*	-40
school meals and milk*	-70
reduce school standards	-100
school building	-30
higher education current	-50
non-advanced further education current	-20
higher and FE building	-10
overseas students fees	-65
16-18s awards	-10
parental contributions to student grants	-20
Youth Service	-5
adult education	-15
inspection and administration	-15
Research Councils	-20
Tuition fees for 16-18s*	-90
	<hr/>
	-630
	<hr/>
Arts and Libraries	
British Library building and services	-6
Arts Council	-3
museums and galleries current	-2
local libraries	-15
local museums	-2
	<hr/>
	-28
	<hr/>
DHSS (health)	
prescription etc charges increase	
announced in Budget	-46
reduced requirements general medical etc	-2
prescription charge to 70p	-32
welfare milk	-3
road casualties, full or increased recovery of costs	-2
	<hr/>
	-85
	<hr/>

DHSS (personal social services)	
effects of 1979-80 measures	-10
further reductions	-78
	<u>-88</u>
DHSS (social security)	
estimating reductions	-329
changes announced 13 June	+332
continued effects of 1979-80	
cash limits squeeze	-8
prices only uprating	-84
increased fraud investigation etc	-20
child dependency allowances	-10
raise women's pension age*	-30
freeze earnings limit for pensioners' wives	-8
abolish maternity grant*	-13
abolish death grant*	-13
extend waiting days for unemployment benefit*	-10
abolish preferences in maintenance benefits*	-10
	<u>-203</u>
HMSO	
reduced services	-7
CSD (civil superannuation only)	-
COI	
publicity	-2
Scotland (excl. DAFS)	
"comparable" programmes	-312
trade, industry etc	-23
	<u>-335</u>

## S E C R E T

- 7 -

Wales (excl. WOAD)	
industry etc	-12½
housing	-57
roads and transport	-13
other environmental services	-15
education	-2½
health	-5
personal social services	-5
	<hr/>
	-110
	<hr/>
Northern Ireland	-128
	 <hr/>
GRAND TOTAL	-3684
	<hr/>

\*Primary legislation required in current session, and not already planned (or could not be included in legislation already planned).

S E C R E T

SECRET



file 5  
Economic  
Policy

10 DOWNING STREET

From the Private Secretary

6 July 1979

The Chancellor of the Exchequer sent the Prime Minister a minute yesterday enclosing a paper on "Public Expenditure: The Economic Background" and a paper by the Chief Secretary on "Public Expenditure, 1980-81 to 1983-84". The Prime Minister is content for these papers to be circulated to Cabinet, and she has asked that the Chief Secretary's paper should aim for cuts of £6½ b. in 1980-81 - which is the Chancellor's and the Chief Secretary's preferred option also.

I am sending a copy of this letter to Sir John Hunt.

I. P. LANKESTER

SECRET

A. M. W. Battishill, Esq.,  
H.M. Treasury.

FRS