

Prior Minister  
see below

THE PSBR IN 1980-81: VIEWS OF OUTSIDE FORECASTERS

The London Business School, in a forecast to be published on 23 July (NB. CONFIDENTIAL until then), predict £11 billion.

Phillips and Drew predict a 1980-81 PSBR of £7½ billion.

The Economist Intelligence Unit (St. James' Group) predict £9½ billion.

2. All these forecasts incorporate estimates of the effects of the June 12 Budget. For 1980-81, they all assume some indexation of the tax system. Their assumptions on public expenditure are not at all clearly spelt out: it looks as though they assume smaller cuts in volume, as compared with the plans in the last White Paper, than the Treasury forecast, but may allow less for comparability pay awards in the public services.

3. Other forecasters have not yet revised their assessments in the light of the budget. The National Institute were forecasting a low PSBR (£9 billion in 1980-81) on a pre-budget basis and their post-budget assessment, to be published next month, can also be expected to show a low figure.

4. Because of the difficulty of making comparisons on the same set of policy assumptions, little importance should be attached to the precise figures. The margins of error on all these forecasts, including the Treasury's, run into several billion.

5. By comparison with the outside forecasts so far available, the Treasury estimate of the 1980-81 PSBR does not seem out of line.

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Mr Prior quoted Brian Reading's forecast. This has not been published, but it apparently shows 1980/81 PSBR of £7.6 bn, compared with Treasury forecast of £9.2 bn. But L.B.S. (see above) are forecasting £11 bn. T. 18/7