

Prime Minister Econ Pol 2

see Mr. Hester  
Mr. Pugh



To note  
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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

*[Handwritten signature]*

PRIME MINISTER

PUBLIC EXPENDITURE

You know, of course, of the importance we attach to the need for effective action on the public expenditure front. I make no apology, therefore, for this early report on the seriousness of the situation.

2. To reduce the overall plans for public expenditure which we inherited from the previous Government is a critical element in our economic strategy, not just for the medium term but also for the present year. In the Budget on which I am now working we want to make a substantial move to reduce the burden of direct tax, and yet to maintain strict monetary control and to keep within tolerable bounds the burden to be carried by indirect tax.

3. We can get some help from disposal of assets, which I am having examined urgently, but there is no doubt that we must make some quick cuts in public expenditure. We inherited plans for an increase in public expenditure over last year of well over 2 per cent in real terms and substantially more in cash terms.

4. The Chief Secretary is circulating for Cabinet next Thursday papers with proposals for specific expenditure cuts in the current year and about cash limits. I hope that our colleagues, mindful of the general strategy on which we are all agreed, may in some cases be able to volunteer some further suggestions beyond those proposed by the Chief Secretary. But in the present year the



scope is limited by the extent to which expenditure is already committed and by the fact that in many areas large cuts require a major review of policies and in some cases legislation.

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5. My immediate concern is to prevent decisions which we are making, or may be contemplating, going in the opposite direction and thus making our problem worse. I am sure that it was right on merits to put up the pay of the Armed Forces and the police in line with our Manifesto commitment, but the extra cost in 1979-80 is around £300 million.

6. In other respects too the provision left by our predecessors in the Estimates for 1979-80 was inadequate. The Civil Service pay settlement will cost about an extra £300 million this year. The Lord President is examining how far this can be offset by economies, but a net increase in cost is still likely. In the NHS and the local authorities, the initial settlements are already substantial, and the comparability arrangements pose a further threat of unknown size. For example, in the National Health Service, if comparability for the nurses and ancillaries were to indicate an extra 10 per cent, of which half would be paid from August 1979, the cost of pay settlements this year could involve another £300 million.

7. Then there is social security. We shall need to decide shortly the final basis of this year's uprating; but the gross additional cost in this financial year of an uprating limited to the figures mentioned during the Election cannot be less than around £600 million.

8. It is essential that we should not aggravate the problem further by large additional increases even in those programmes to which we attach priority, for example of the kind envisaged in the Defence Secretary's minute of 9th May, on which I am minuting you separately. Everywhere the presumption must be that any new

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demands should be met by greater economy and efficiency, and by offsetting savings rather than by the provision of further money.

9. I am copying this minute to members of the Cabinet and to Sir John Hunt.

*Am Bateson*

*Principal Private Secretary.*

GEOFFREY HOWE

11<sup>th</sup> May, 1979

(Approved by the Chancellor of the Exchequer and signed in his absence)