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SPEAKING NOTES FOR MINISTERS ON PUBLIC EXPENDITURE WHITE PAPER

ECONOMIC BACKGROUND

The Government's strategy is to hold total public spending at its present level in volume terms for the time being. The projected outturn for the current year, 1979/80 and next year 1980/81 is very close to the estimated outturn of 1978-79.

The immediate prospect for output is poor both at home and abroad. The growth of world trade is slow. The recent increase in the oil price has made matters worse. Unless the Government stabilises public spending, there can be no possibility of lower taxes, lower borrowing or lower interest rates.

The previous Government's plans for 1980/81 let alone subsequent years, involved a level of expenditure which could not be sustained. To pay for the additional £3½ billion they planned would have required sharply higher taxes or borrowing.

The increase in the basic rate of income tax required to raise an additional £3½ billion of revenue is about 8p.

The Chief Secretary in the previous administration has acknowledged that they would have had to make cuts in their planned expenditure. So did the previous Chancellor at the time of the Budget. And Mr Callaghan said, as long ago as 1976, that public spending should take a falling share of the nation's output.

The Government's central objectives are:

- to bring down the rate of inflation, through firm control of the money supply and Government borrowing.
- to restore incentives, through holding down and if possible reducing taxes, particularly on incomes.
- to plan for spending no greater than is compatible with these objectives, given the poor short term prospects for output.

This is not to deny that many public services need improvement. It is rather to recognise that improvement can only be secured through earning the money and resources needed to pay for them by higher output.

To plan for more expenditure before the necessary growth in output is available would only prevent that growth. We have seen the results of this approach over the years.

- Increases in taxes have made inflationary pressures worse and reduced incentives.
- High government borrowing has fuelled inflation and raised interest rates.
- High inflation has increased the risks and uncertainties faced by industry and gravely damaged investment, production and jobs.

So there is no real alternative to the policies we are following.

OVERALL PLAN

The Government have provided for growth in some programmes, particularly defence, law and order and social security (partly reflecting this month's record pension uprating), and for the higher pay scales which will follow from the awards of the Clegg Commission on comparability. Within the total, reductions have therefore been made in some other services including education, housing, and roads and transport.

Local authorities The Government's White Paper shows a broad distribution of local authority current expenditure which reflects the Government's view of national priorities. It is for individual authorities, however, to decide the eventual distribution in the light of local needs and conditions.

SOME SELECTED POINTS

Defence

The 3 per cent increase for 1980/81 reflects the Government's determination to give priority to strengthening the nation's defences.

- Overseas aid About the same level in 1980/81 as in the current year.
- FCO 23 overseas posts to be closed or reduced in size.
- Price Commission Abolition expected to save £7 million in 1980/81.
- Roads and transport Reduction in overall programme in 1980/81 but allowance for increased expenditure on motorway maintenance. About half of reduction intended to come from local transport; much of rest from changes, in agreements for funding of British Rail and National Freight Corporation pension schemes.
- Housing Reduction in 1980/81 expected, largely as consequence of reductions in local authority housebuilding in recent years. Over a period of years Government intend to reduce level of housing subsidies.
- Law and order and protective services £88 million more in 1980/81 (£23m more than previously planned for that year) will allow an increase in numbers of police and in provision for probation and after-care services and magistrates' courts, and enable existing standards of fire cover to be maintained.
- Education Reduction reflects falling numbers of pupils and expected savings on school milk, meals and transport. No reduction in provision for capital spending on school basic needs : but building programmes for school improvements, under fives and further/higher education to be reduced. New overseas students (or their sponsors) to meet full cost of tuition.

Health

1980/81 spending on NHS to be maintained at level proposed by last Administration. Net cost to taxpayer reduced : prescription charges increased to 70p next April - only slightly higher in real terms than when re-introduced in 1971. Dental charges will be revised to maintain their 1979/80 level in real terms. Measures to eliminate waste and simplify administration.

Personal social services

Government expect that local authority savings will as far as possible be made by further increases in efficiency, collaboration with the voluntary sector, elimination of low priority provision and policies to help people help themselves. Local authorities asked to protect the more vulnerable, and to give priority to children's services concerned with prevention and treatment of delinquency.

Social security

Provision reflects Government's intention to intensify efforts against fraud and abuse.

Paymaster General's Office
Privy Council Office
68 Whitehall
London SW1A 2AT

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