

PRIME MINISTER

c.c. Mr. Sanders

PUBLIC EXPENDITURE

Though you will not want to say what Cabinet has decided on public expenditure, you might like to be reminded of the arithmetic.

The totals look like this:

	£ billion at 1979 <u>survey prices</u>
1978/79 outturn	69½
1979/80 Labour plan	73
1979/80 post-budget plans	69½
1980/81 Labour plan	74½

Labour's plan for 1979/80 has been cut by £3½ billion through the reductions in public expenditure announced in the Budget and through sticking to cash limits despite the faster inflation rate that had earlier been assumed. If we stuck to Labour's plan for 1980/81, expenditure would increase by £5 billion.

Public expenditure "cuts" provisionally agreed in Cabinet amount to £3.4 billion (details in table attached). We are counting on a further £1.7 billion from lower borrowing by nationalised industries, cuts in civil service manpower, reduction in contingency reserve, and sale of assets. This makes a total of £5.1 billion provisionally agreed. On this basis, expenditure in 1980/81 would be at about the same level as in 1979/80.

I think you need to get over the following points:

- (i) Labour's plan for 1980/81 is £5 billion higher in real terms than expenditure this year.

This massive increase is totally unrealistic: it would mean either a big increase in tax or a quite unsustainable increase in the PSBR.

/ (ii)

- (ii) The need to cut back Labour plans is all the greater because of the increase in public service pay now in the pipe-line. As a result of these increases, the cost of public services is going to be that much greater; and this means we will have to economise on the level of services.
- (iii) We have always said that public expenditure must be brought back into line with what the economy can afford. The alternative to this can only be higher taxes and the continued decline of British industry.

Although Cabinet's aim is to stabilise expenditure in 1980/81 at this year's level, and looks like being achieved, there are considerable differences between programmes. There are some programmes which will be cut compared with expenditure in 1979/80 - notably housing, transport and education.

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24 July 1979

PUBLIC EXPENDITURE

£ million at 1979 Survey Prices

	<u>1979/80</u>	<u>1980/81</u>	
	<u>post-budget plans</u>	<u>"Cuts" on inherited plan</u>	<u>Plans after "cuts" agreed</u>
Defence	7,927	-115	8,062
Aid	956	-115	896
FCO (other)	311	- 13	295
EEC Budget	787	+236	1,023
MAFF	1,036	- 43	964
Forestry	65	- 5	57
Industry	1,004	-187	960
Trade	191	- 12	179
ECGD	-153	+170	170
Employment	1,096	-513	<u>1,139</u> +4?
Energy	315	- 7	315
Transport	2,675	-250	2,422
Housing	4,592	-1000	4,266
PSA	343	- 54	332
DOE (other)	2,529	-225	<u>2,501</u>
Home Office	2,085	+ 24	<u>2,151</u> →
Lord Chancellor	141	- 4	150
Education & Science	8,258	-437	7,966
Arts & Libraries	364	- 28	350
DHSS (Health and personal social services)	<u>8,095</u>	-203	<u>8,136</u> →
DHSS (Social Security)	<u>19,384</u>	-222	19,587 →
HMSO	99	- 10	90
COI	32	- 3	25
Scottish Office	3,845	-222*	3,770*
Welsh Office	1,152	-110*	<u>1,201*</u> →
Northern Ireland	2,008	- 88*	<u>1,942*</u>
		<u>TOTAL</u>	<u>-3,436</u>

*The "cuts" for Scottish Office, Welsh Office and Northern Ireland still have to be finally settled - they will come back to Cabonet on Thursday.