

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Mr Byatt  
Mr Anson  
Mr Bailey  
Mr Butler o.r.  
Mr Cassell o.r.  
Mr Shepherd  
Miss Brown  
Mr Unwin

PUBLIC EXPENDITURE PROPOSALS FOR 1981-82 TO 1982-83

I sent forward a few days ago Mr Butler's minute of 2 August to give you a first view of the proposals being put together in the Public Services Sector for the paper for Cabinet in September about public expenditure in the later years of the Survey. Following further discussion with Sir Fred Atkinson and others I should now like to add the following point, concerning the relationship of these proposals to the picture presented by the medium term assessment.

2. In broad terms the proposals in the paper go as far as, and indeed somewhat beyond, what we think likely to prove feasible in the direction of reducing public expenditure plans for the relevant years. And, on certain assumptions, they would meet the desired objective of bringing the total back to that of 1977-78 by 1982-83. How do they look in relation to what we can say about the economic prospects?

3. As you know, the next medium term assessment, which will be part of the source material for the big public expenditure White Paper now planned for December, cannot be completed for

some weeks after the next short-term forecast, that is, until November. But those concerned have been comparing the present expenditure proposals with what was assumed for public expenditure in the last MTA, especially "Case C", which was designed to reduce monetary growth by  $\frac{1}{2}$  a percentage point a year, and the PSBR as a per cent of GDP by  $\frac{1}{4}$  point a year. This MTA case showed a requirement for some increase in taxation in 1980-81 and 1981-82.

4. Further work is being done and more refined calculations are in progress; but the preliminary conclusion is that if the proposals on Mr Butler's minute were adopted in full the resulting path for public expenditure would be higher than assumed in Case C by about £1 billion in 1980-81 and in 1982-83. In 1981-82 it would be about the same as the MTA assumption. For the further year 1983-84 calculations have not been completed.

5. In relation to 1980-81 this is not a new point. It is familiar that the cuts agreed in Cabinet fell short of the original target by about £1.4 billion (at Survey prices). The present calculation exhibits that. But it also shows a similar difference between MTA Case C and the current proposals for 1982-83. One reason is the MTA had a larger figure for unemployment, increasing the amount of unemployment benefit and hence the amount of cuts needed to offset it.

6. In so far as the general structure of the MTA is to be believed and the comparisons are correct, this presents a problem both of substance and of presentation. In substance, it indicates that unless public expenditure can be cut further, the Government's objectives for tax reduction and interest rate reduction would be at risk. The presentational problem is that if the cuts proposals stand and even more if they are not fully achieved, the December White Paper may have difficulty in avoiding the implication that the proposed path for public expenditure is too high in relation to the economic calculations.

1974

7. Should one on this account propose larger cuts than in Mr Butler's paper? Our advice is not.

8. The figures produced by the MTA are extremely uncertain, especially for the later years. The results of the next MTA may be different, although not necessarily more favourable. The MTA represents a professional judgement of what may happen on the assumptions used, but the uncertainties are huge.

9. In any event, it is going to be difficult enough to secure Cabinet agreement to all our present proposals. Indeed, as Mr Butler's paper said, Cabinet are unlikely to accept them in full. We do not think it would help to make even more ambitious initial proposals. Rather, let us use the MTA calculation as part of the economic argument for going for the present proposals in full.

10. The time to think about a solution to the presentational problem is when we come to draft the December White Paper, knowing what the results of the next MTA actually are and what are the Cabinet decisions to which they have to be related.

A K RAWLINSON  
8 AUGUST 1979