

SUCCESS ON PUBLIC SPENDING

The Public Expenditure White Paper, published on 1st February 1983, shows that one of the Government's central economic objectives – bringing public expenditure under control – has been achieved. The key points are:

- * For 1982-3 the estimated outturn of £113 billion compares with the originally budgeted £114.7 billion.
- * For 1983-4 the total cash plans are for £119.6 billion, about £1 billion less than the amount envisaged at the time of the 1982 Budget, and £½ billion less than the total of spending programmes outlined in the Autumn Statement of last November.
- * For 1984-5 the cash plans are now for £126.4 billion, over £1 billion less than the amount envisaged at the time of the 1982 Budget.

This will release to the private sector resources which would otherwise have been consumed in the public sector. However, the Chief Secretary to the Treasury, **Mr Leon Brittan**, cautioned against speculation that tax cuts would be larger than the £1 billion foreseen as being available at the time of the Autumn Statement. He emphasised that the final judgment about the size of tax cuts and of the PSBR would be made at the time of the Budget, adding:

'There have been a number of changes of considerable importance since the autumn which work in both directions, including, for example, the sterling exchange rate and oil prices' (Statement, 1st February 1983).

Contrast with Labour

This year's (1982-3) spending total of £113 billion is some £7 billion less than the amount planned for this year by the last Labour Government.

The annual rate of increase in public expenditure has been reduced dramatically. For 1978-9 – the Labour Government's last year in office – it was 15.8 per cent and set to rise faster. For 1982-3 it is 8 per cent. It is expected to fall to 5.8 per cent in 1983-4 and 4.7 per cent in 1985-6. This reflects the Government's success both in bringing down inflation and in curbing the trend towards ever high public spending.

The rise in public spending as a proportion of GDP has been reversed. It reached a peak of 46 per cent under Labour in 1975-6. It was only 44½ per cent in 1981-2, and should fall to 44 per cent in 1982-3 and 43½ per cent in 1983-4.

Labour, by contrast, are now committed to an even more irresponsible spending programme than they had before. Their nationalisation, renationalisation, housing, education, social security, and other spending plans could add anything between £20 and £40 billion to a year's public spending.

Changes Next Year

The main changes in the expenditure plans for 1983-4, compared with those at the time of the 1982 Budget, largely reflect Conservative spending priorities.

- * *Social Security* provision has been expanded by £900 million to take account of likely levels of unemployment and fresh information on the take-up of benefits.
- * *Defence* spending meets the Government's commitment to the NATO aim of 3 per cent real annual growth, and includes an extra £624 million for the Falkland Islands.
- * *Employment* spending is increased by £260 million to meet the cost of the new Community's Programme and the job splitting subsidy.
- * *Law and Order* provision is increased by £137 million, and £140 million and £152 million in the following two years, reflecting the Government's determination to fight crime.

- * *Health* expenditure will rise by £80 million, and a further £84 million and £87 million in the following two years, which should allow for some further real growth in services.
- * *Education and Science* spending will rise by £60 million, and £130 million and £50 million in the next two years.

Nationalised Industry and Local Authority Expenditure

The White Paper demonstrates the Government's concern to ensure a proper balance between current and capital spending. Local authorities budgeted to overspend by £1½ billion on current account in 1982-3. The inevitable impact on the following year has meant that the Government has had to provide for an extra £1.3 billion for local authority current expenditure in 1983-4.

Criticism that the Government has held back capital spending by local authorities and nationalised industries is misplaced. Total public sector capital expenditure in 1983-4 (£11¼ billion) is planned to be 12 per cent higher than in 1982-3. Expenditure on construction is expected to rise by 10 per cent to £10¼ billion.

Signs of Strength

The fact that public expenditure is under control confirms the broader picture of sound national finances and underlying strength in the economy:

- * Inflation – at 5.4 per cent – is at its lowest level for 13 years.
- * The Government deficit (PSBR), as a proportion of GDP, is one of the lowest in the industrial world.
- * The money supply is under control.
- * After a record surplus in 1981, there is a healthy balance of payments; the surplus on current account in 1982 was £4.6 billion.
- * Official foreign currency borrowing is at its lowest level in real terms since the war. It has been reduced from \$22 billion in May 1979 to only \$12 billion in November 1982.
- * Over the last two years manufacturing productivity has risen faster than among our competitors. Output per head is now 13-14 per cent higher than at the end of 1980.
- * The increase in average earnings was halved in the 1980-81 pay round; further moderation in the 1981-82 round took the rise to around only 9 per cent. CBI figures show pay rises in manufacturing are now averaging 6.1 per cent.
- * Cost competitiveness in manufacturing has improved by over 20 per cent since early 1981.

As **Mr Leon Brittan** has remarked: 'These are all signals of stability. And they all justify confidence' (Leeds, 28th January 1983).

DH/JLS