

PRIME MINISTERPUBLIC EXPENDITURE 1983-84 : CORRECTIVE ACTION

I have a few thoughts on the Chancellor's paper of 29 June.

It seems to me entirely defensible for the Government to take some good housekeeping measures to moderate spending if total public expenditure looks like exceeding the plan. This could be done in quite a low key way, without being presented as "July measures".

I think that it would be a mistake to limit the action to non-pay expenditure, since this would once again amount to stopping expenditure which goes to the benefit of the private sector without taking any action on the Government's own salaries and administrative expenditure. I suggest taking action on all cash limited expenditure, but excluding some departments whose expenditure is only pay and who are under pressure because of the Civil Service pay settlement.

I hope that, in order to defer some expenditure from this year, the Government will not introduce end-year flexibility. Such a scheme not only increases total spending (since departments add to next year money which they would have otherwise lost) but weakens public expenditure control by making annual limits elastic. Such a scheme will certainly be welcomed by the spending departments, but should be opposed by the Treasury and all who give priority to firm controls on expenditure. It would be better to say that any savings which a department can make, after reducing its cash limited expenditure by 2 per cent, would be added on to next year - as an ad hoc incentive to saving this year and not as a general scheme of end-year flexibility.

The Chancellor's paper says that some of the excess arises on the nationalised industries, but does not suggest any action in that area. Can nothing really be done?

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We need to think about handling in Cabinet. The Cabinet cannot be expected to agree immediately to proposals which are put to them on Thursday and on which they have not had advice. One possibility would be to make proposals orally on Thursday and have a further discussion of them in a subsequent meeting: the trouble about this is that the proposals would leak in the mean time and the resistance would build up. It is worth considering whether Mr Middleton or Sir Robert Armstrong should call in the Permanent Secretaries on Tuesday and tell them privately what is proposed so that they can brief their Ministers and a decision can be taken at Cabinet on Thursday.

H.E.R.B.

1 July 1983

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