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MR. SCHOLAR


PUBLIC EXPENDITURE CORRECTIVE ACTION  
CHANCELLOR'S MEMORANDUM OF 29 JUNE

The Chancellor's analysis is, in my view, correct. Although there is great uncertainty about the actual outcome, I would be astonished if we do not get a substantial overrun on the PSBR. And this has been mainly generated on the expenditure side. So the corrective action must be concentrated here.

My only reservation is whether the 2% reduction in cash limits is sufficient. Raising £300-£500 million when there is an expected overrun of about £3 billion does not look a very convincing response to the situation. Indeed the upper limit of £500 million savings does not cover the £600 million overrun on cash limited central government expenditure.

It would be wise to consider trying a higher figure of 3% reduction in cash limits. This would have the advantage of offsetting the estimated overrun on expenditure. Furthermore as we get into the stride of recovery, any reduction in central government expenditure will tend to be matched by private sector expansion.

Prime Minister

  
ALAN WALTERS  
1 July 1983

① Would it not be better to go for 2% across the board, including pay? Why should pay be let off, the private sector might ask? Departments should squeeze everywhere they can.

② Presentation. Rather than have 'July measures' or revisions to cash limits couldn't we say that, just as expenditure fell short last



autumn so we turned the tap wider especially on capital,  
so now it is running ahead too fast, so we ask Departments  
to reduce all their spending, month-by-month, for, say,  
the next 4 months?

(3) Our aim should be to go for current rather  
than capital — that also argues for not excluding pay.

(4) Please see, too, Robini's note.

MCS 1/7