14 July 1983
Policy Unit

PA

PRIME MINISTER

PUBLIC EXPENDITURE: THE CHIEF SECRETARY'S DRAFT

Alan agrees that the Chief Secretary's draft is not ambitious enough. Although its objective is, we believe, right (Taxes/GDP back down from 40% to the inherited level of 34% by 1988-89; income tax 25%), the level of savings proposed leaves insufficient margin to achieve it (or something better) in view of the possibility that:

1. GDP might grow at 2% a year (or worse) to 1988-89, rather than the 2½% which is assumed.

2. Departments will fail to deliver their commitments eg to tackle problem nationalised industries. Can we really rely on the expected turn-round in nationalised industry finances? Look what happened in the last Parliament.

3. Demand-determined expenditures will escape control.

The paper ought therefore to aim at least for double the proposed programme savings in 1986-87, ie £4 billion rather than £2 billion. We believe these to be both achievable and politically feasible: to illustrate, in just three areas (defence procurement, capital grants to industry and agriculture, education) we have identified ways of saving £2½ billion at acceptable political cost.

We must write in a higher contingency margin for 1986-87. We ought also to stress, for tactical reasons, that all Departments will need to find savings but some more than others (the draft refers in paragraph 5 to allocating more to some programmes, less to others). Spending Ministers will not willingly accept the role of victim if others are permitted to expand their total expenditure.

THE CHANCELLOR'S MEMO: Surely pay in the public sector needs a more substantial reference than the afterthought tacked on to paragraph 10.

FERDINAND MOUNT FM