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1. MR SCHOLAR

cc Mr Mount

2. PRIME MINISTER

PUBLIC EXPENDITURE: PUBLIC DEBATE

Willie Rickett sought my comments on the Chancellor's paper of August 12 on stimulating public discussion on public expenditure before you see Mr Lawson.

Before we can sensibly plan any campaign to stimulate a more positive public discussion of public expenditure, we need to examine where we have got to. If we had a choice, we would no doubt prefer a different starting point. Public discussion of public expenditure has developed very unhelpfully over the past 4 years.

First, while the link between public spending and taxation has been forged in the public mind, higher public spending is still preferred to lower taxation, to judge from public opinion polls, against a background of high and rising unemployment. A link between lower public expenditure (and lower taxation) and more jobs has yet to be credibly forged.

Second, while the links between efficiency, costs, pay, competitiveness profit and jobs in the private sector have been much more clearly and painfully established in the public mind, public expenditure, whether effectively applied or not, is still seen positively as a provider rather than a potential destroyer of jobs.

Third, even though public expenditure has grown by 5% in real terms over the last 4 years, this Government is generally seen as a cutter - or, in Left-wingese, a butcher. The result is that the Government has got the worst of both worlds - on the one hand, such supporters as the Sun, Express and Mail lambast it for failing to cut public expenditure (while at the same time daily reporting "cuts" of one kind or another), and on the other hand its opponents accuse it of cutting to the bone or, worse, of dismantling the welfare state etc.

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Fourth, the Government has shown itself very sensitive to such charges. It has sought to take credit for some expansion in public expenditure - eg. in the greater employment of doctors and nurses. The message has thus become further confused. The confusion is worse confounded by each year's autumnal PESC exercise when Ministers are portrayed as battling, mostly heroically, against "cuts".

Fifth, to return to the third point, I am almost in despair at the media's over-simplistic, confused, false or downright dishonest reporting of public expenditure. Public expenditure continues to be cut even when it continues to rise, - when, for example, bids for expenditure in excess of plans are being reduced or expenditure is being reallocated to take account of overspending.

In short, confusion reigns. The current public debate - and that which we have had over the past 4 years, and before - is frankly illiterate. And our objectives are ill-served if we ignore this distressing state of affairs.

Against this background, I believe something more drastic than proposed in the Chancellor's paper is required if the objective of changing the context of the public debate is to be achieved. We need to strike out afresh. The Government needs to re-position public discussion; to establish it on a new plane; and to generate a new level of public understanding.

If this is to be done we need nothing less than a carefully but simply worded and presented statement from you, on behalf of the whole Cabinet, which could be widely disseminated. This should set out frankly:

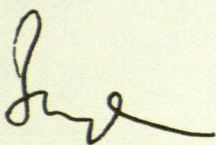
- the basic approach of the Government to public expenditure and the relationships between its components and taxation, jobs etc;
- how myths have grown up and how they are perpetuated;
- why lower expenditure (and lower taxation) and less Government help not hinder jobs;
- the public expenditure performance so far and why it must be improved upon;

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- the longer term perspective, given demographic trends;
- the Government's commitment to a system which provides, efficiently, for the welfare of all our people; but the emphasis that needs to be put on efficiency if the system is to cope with increasing burdens;
- why, in all walks of life - eg. local as well as central government - we need to look critically rather than benignly at public expenditure; why public expenditure in itself is not necessarily a good thing and why it needs to be justified at least as much as private outlay.

It may be argued that there is nothing new in all this; it has all been said before. That is true. But the Government has not before sought to dictate the terms of the debate about public expenditure or specifically raise the level of discussion of this issue, as a deliberate calculated exercise at the height of a public expenditure review. Without a statement of this kind, I see the range of actions proposed by the Chancellor in paragraph 4 as being less sharply focussed and therefore less effective. But with a suitably publicised statement of this kind, I see a chance of actually achieving our objective of channelling public discussion along more helpful lines.

It would probably be necessary to find, or invent, a platform for your delivering the statement I propose. If you agree with the concept, I would produce a first draft in consultation with Michael Scholar.



B. INGHAM

31 August 1983