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Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

LONG-TERM PUBLIC EXPENDITURE PROSPECTS

At Budget time we shall as you know be publishing a White Paper giving details of our public expenditure up to 1984-85.

2. I have been considering the prospects for public expenditure in the period beyond 1985. They are very worrying. We need to take stock of where we are going in the light of our experience in the last two and a half years.

3. Though the problem stretches well beyond the horizons of a normal Public Expenditure Survey, the decisions we take in the next year or so will tend to reduce our room for manoeuvre in the longer term. We are, for example, running into major problems over defence. If we were to continue to aim for the next ten years or so at the NATO target of annual real increases of 3 per cent, we could find at the end of the period that we were spending something like 7 per cent of our GDP on defence, compared with the present 5 per cent.

4. But defence is by no means the only problem. We have also given high priority to some very large civil programmes, such as social security and health. We are committed to maintaining the purchasing power of more than half of social security benefits. We have so far allowed the health programme to grow in real terms. Though as a proportion of GDP education expenditure is falling at present, largely for demographic reasons, the downward trend in the numbers of pupils is likely to reverse in due course. Defence, social security, health, and education together account for over 60 per cent of total public expenditure.

A candidate for
your Wednesday
discussion with
the Chancellor?
MUS 8/2

Yes
no



5. Elsewhere, we have found that the scope for reductions is necessarily limited. Indeed some of the smaller programmes (law and order; employment) have required special preference.
6. Clearly it is necessary to achieve a reduction in the burden of the public sector on the economy. It is, and must remain, an essential part of our strategy; and we need to consider how it is to be maintained and developed up to and beyond the next election.
7. In bringing public expenditure under control we have concentrated so far on cash and on the relatively short term. But the longer term prospects extending well beyond the lifetime of this Parliament call for thorough study. I am accordingly inclined to propose that:-
- (a) the Treasury, in consultation with major spending Departments and the CPRS, should immediately set in hand an examination of the likely pattern of public expenditure over the next decade, on the basis of a range of possible assumptions about growth and other factors;
 - (b) I should report to Cabinet in the light of this study by next June;
 - (c) colleagues in charge of major spending Departments should ensure that the work is given the necessary priority in their Departments; and
 - (d) in the meantime we should make no changes in our present expenditure programmes which would pre-empt decisions about the longer term.



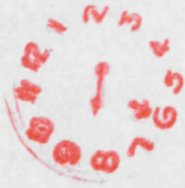
8. I am copying this at this stage only to Sir Robert Armstrong. I hope to have an early opportunity of discussing with you the best way of carrying forward the approach that I have suggested.

(G.H.)

5 February 1982



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