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Ref. A07490

MR. WHITMORE

MS
for meeting Wldw

Ch/Ex on 17/2

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The Chancellor of the Exchequer sent the Prime Minister a minute on 5th February, proposing an examination of the likely pattern of public expenditure over the next decade, as a background to the development of strategy up to and beyond the next Election.

2. It is obviously in principle a very good idea that the Government should have before it an idea of the constraints under which public expenditure is likely to be over a longer period. In principle, therefore, I think that the Chancellor's proposal is a good idea, though I wonder whether it is realistic to suppose that this exercise can usefully be completed as early as next June. If it is to go ahead, I wonder whether September or October 1982 would be more realistic, and just keep clear of the 1982 PESC exercise, which will come to a head in October and November.

3. It would be important not to pin too much on the exercise: it will depend upon forecasts of economic activity and growth over a period of ten years, about whose reliability there must be some scepticism.

4. Two other reservations:

- (1) Some of the Chancellor's colleagues will be very suspicious that this is just another Treasury ploy for justifying a squeeze in the next round of public expenditure discussions.
- (2) The exercise is not likely to lead to the conclusion that the problems of controlling public expenditure are going to get easier (that is an understatement). We must assume that the fact that the exercise is being undertaken, and very probably its conclusions, will become public knowledge. This could complicate the presentation of the Government's economic policies during the next year or two.

REA

ROBERT ARMSTRONG

15th February, 1982

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