


MR. SCHOLARLONG TERM TRENDS IN PUBLIC EXPENDITURE

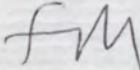
1. We are sure it is right for the Chancellor to separate the broad strategy of public expenditure, over the next eight years or so, from the detailed discussion which will go on about next year's public expenditure. This is a much better structure to the discussion than the original proposal. Although, as John Vereker points out, it will be difficult in practice to separate it from immediate policy. Yet it is well worth a hard try.
  
2. Again the Chancellor is entirely right in his emphasis on cutting programmes. Only if the four major programmes are tackled will there be any real impact on spending. (This is the experience of the Reagan administration.) These involve major political decisions. One of the dominant issues must be the shift from public to private sector of social security, health and education. And although it would help, because of efficiency, to switch to private provision while maintaining public financing, the important step is towards private financing. With defence and police, of course, there is no possibility of private financing although there might be for additional private provision (through contracting out). ?  

  
3. We agree with the Chancellor that there will need to be at least "a good half day". We suspect that there will need to be a follow-up discussion too.
  
4. On the desirability of stimulating discussion through a parallel study, some 12 months ago the Adam Smith Institute started a very wide-ranging and intensive study of public expenditure prospects. If it is successful, this will provide the review which the Chancellor is suggesting in paragraph 16. But it would be a good idea to encourage another study - perhaps through IEA or, more doubtfully, IFS to ensure appropriate coverage.  
IEA
  
5. The report by the interdepartmental group of officials is itself a standing testimony to the need for new thinking on public expenditure. Left to itself, everything extrapolates at insupportable growth rates.

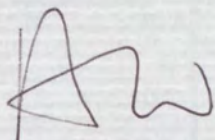


6. Because the Chancellor's study makes such grim reading, it presents an opportunity to shift the ground of the public expenditure argument in the direction of radical change. For two reasons, it could mark a turning point.

- (a) The status quo looks less and less like a practical option for the next five years. It is no longer a question of "privatise to improve efficiency"; it is "privatise or the financial strain will bankrupt the Government".
- (b) The study makes it clear that the shifting of nationalised industries into the private sector will not of itself alter the sums significantly. It is the great welfare departments - Health, Education and pensions - where substantial injections of private finance will be essential. In modern Western societies, these are all high-growth industries, and the state alone can no longer generate the income to support them.

17 June 1982

  
FERDINAND MOUNT

  
ALAN WALTERS