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File 5

7 November 1984

PRIME MINISTER

PUBLIC EXPENDITURE CABINET

You might find it useful to have some ammunition for Cabinet.

Sticking to objectives

Cabinet in July agreed to stick to existing spending plans. That's what Cabinet also decided in 1982 and 1983, and kept to its word. This showed the Government's resolve to maintain a stable financial framework.

If Cabinet decides to increase public expenditure above its previous plans, this will undermine the Government's reputation for constancy and rigour. It will also upset the financial markets immediately before the BT sale.

Public Expenditure growth

Public spending has increased in cost terms every year since 1979.

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*This is a slightly different definition from that on the printout but the trend is the same.*

	<u>£bn (1982-83 prices)</u>
1979-80	111.7
1980-81	113.5
1981-82	116.5
1982-83	118.4
1983-84	120.3
1984-85	120.5 (assuming no overshoot)
1985-86	120.7 (agreed baseline)

*(Subsequently discovered from HM Treasury that these are 1983-84 prices)*

The Labour Government in 1976 cut public expenditure by 6 per cent in real terms in one year!

In cash terms, spending has risen from £77 billion in 1979-80 to at least £126 billion this year - an increase of two-thirds.

#### Public Expenditure as a percentage of GDP

Public expenditure rose from 1979 to 1981 as a percentage of GDP because of the recession. But, despite the economic recovery, we haven't fully reversed the increase. Even if we stick to the survey baseline for next year, public expenditure will be 41 per cent of GDP compared to 39.5 per cent in 1979-80. Is this rolling back the frontiers of the state?

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Fiddling the figures

Colleagues should recognise that the figures are already being fiddled to hold down the planning total.

Extra privatisation receipts and extra council house sales will yield £800 million in 1985-86. That is very welcome, but counting this as negative expenditure is scarcely reining back on public spending. In effect, we are blowing all the proceeds on more spending, without keeping any for tax cuts.

The Contingency Reserve next year is being cut back from £3.75 billion to £3 billion. Yet the costs of the miners' strike may put it under considerable pressure. We are also likely to breach the Reserve this year - another failure next year would undermine the credibility of the Contingency Reserve system. So any further reductions in the Reserve would be irresponsible.

David Willetts

DAVID WILLETTS

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Housing -

The present position is - see para 28 of Cabinet Paper

	1	2	3
Mr Jenkin	+103	+368	+480
Gap	630	820	960
MISC 106	-527	-452	-480

Splitting difference would produce

	1	2	3
	-212	-42	0

revised receipt of 100

On examination Chancellor felt he needed a bit more in the first year so he suggested

	1	2	3
	-250	-50	0

Robin reported to Mr Jenkin that you had discussed matter with Chancellor, the gap was still large, but that if Mr Jenkin could accept splitting the difference slightly weighted towards year 1, you would press Chancellor to accept it also.

Mr Jenkin agreed to consider it. He has been on bench during debate so we do not have his answer yet.

	1	2	3
	-312	-142	100

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