



10 DOWNING STREET

From the Private Secretary

Prime Minister

You might like to look (skim) through these papers as background to Thursday's meeting on social expenditure.

- (i) A note on housing benefit
- (ii) OECD work on social expenditure
- (iii) An updated version of the Green Book of social services statistics.

An annotated agenda and a Policy Unit note will reach you on Tuesday.

AT

6/1

②  
PRIME MINISTER

GROWTH OF SOCIAL EXPENDITURE

*Weekend hour*

*please  
not*

TUESDAY'S FT REPORTED THAT:

"A RECENT STUDY BY OECD HAS SUGGESTED THAT SOCIAL BENEFITS WILL NEED TO BE CUT IN MOST COUNTRIES IF PUBLIC SPENDING IS TO STAY UNDER CONTROL".

AS FAR AS I CAN ESTABLISH, THERE IS NO STUDY AS SUCH WHICH OECD HAS RECENTLY COMPLETED. WORK IS GOING ON UNDER THE DIRECTORATE FOR SOCIAL AFFAIRS MANPOWER AND EDUCATION ON THE FACTORS BEHIND THE GROWTH OF SOCIAL EXPENDITURE AND THE IMPLICATIONS FOR THE FUTURE GIVEN CERTAIN ASSUMPTIONS ABOUT THE GROWTH OF GDP. THIS WORK IS BEING CONDUCTED LARGELY IN RELATION TO THE OECD AREA AS A WHOLE, RATHER THAN AS A SERIES OF PROJECTIONS RELATING TO SPECIFIC COUNTRIES. THE METHODOLOGY IS RATHER SIMILAR TO THAT USED BY THE TREASURY IN ITS LONG-TERM PUBLIC EXPENDITURE EXERCISE. WORK IS NOT YET COMPLETE BUT IT MAY LEAD EVENTUALLY TO A PUBLISHED DOCUMENT.

THE MOST LIKELY SOURCE OF THE FT REPORT IS THAT, IN THE COURSE OF THE PRESS CONFERENCE OECD GAVE TO LAUNCH ITS ECONOMIC OUTLOOK JUST BEFORE CHRISTMAS, THERE WAS SOME DISCUSSION ABOUT THE FUTURE WORK OF THE ORGANISATION. THEY ARE ORGANISING A CONFERENCE ON 13/14 FEBRUARY ON THE LONGER TERM PERFORMANCE OF OECD ECONOMIES AND THE CHALLENGES FACING GOVERNMENTS. THE UK WILL BE REPRESENTED BY THE CHIEF SECRETARY.

THE SECRETARY GENERAL OF OECD HAS CIRCULATED A PAPER IDENTIFYING THREE THEMES FOR THIS CONFERENCE - A COPY OF THE DOCUMENT IS ATTACHED.

/PART I

PART I	PRESSURES ON THE PUBLIC SECTOR
PART II	FLEXIBILITY AND EFFICIENCY IN THE PRIVATE SECTOR
PART III	NATIONAL POLICIES AND THE INTERNATIONAL FRAME- WORK

THESE ARE SUMMARISED IN PAGES 1-5.

THE PUBLIC SECTOR CHAPTER DRAWS ON THE UNFINISHED WORK REFERRED TO ABOVE. YOU MIGHT LIKE TO LOOK AT PAGES 6-12 WHICH ARE INTERESTING IN THE WAY THEY ILLUSTRATE THE CHANGING ECONOMIC CONSENSUS IN THE INDUSTRIAL WORLD.

I WOULD NOT PUT TOO MUCH EMPHASIS ON THE "THOUGHT EXPERIMENT" IN PARAGRAPH 1.7. THIS CLAIMS THAT IF UNEMPLOYMENT WERE HELD CONSTANT AND BENEFIT RATES AND COVERAGE WERE FROZEN IN REAL TERMS SOME FALL IN SOCIAL EXPENDITURE AS A PROPORTION OF GDP MIGHT BE ACHIEVED EVEN WITH QUITE MODERATE RATES OF GROWTH. IT IS CLEAR, HOWEVER, FROM SUBSEQUENT PARAGRAPHS THAT THE SECRETARIAT REGARDS THIS AS NO MORE THAN A PIECE OF ARITHMETIC. THE DIFFICULTY FACING GOVERNMENTS IS THAT EXPECTATIONS ABOUT SOCIAL EXPENDITURE CONTINUE TO RISE. A NUMBER OF SCHEMES, PARTICULARLY PENSIONS, HAVE REAL INCREASES BUILT INTO THEM AS PENSIONS SCHEMES ESTABLISHED SOME YEARS AGO COME TO MATURITY. THIS, PLUS THE DIFFICULTY OF CUTTING BACK PROGRAMMES WHICH OUGHT TO BE ON THE DECLINE, MEANS THAT EXPENDITURE CUTS HAVE TO BE FOUND MERELY TO STAND STILL.

ONE INTERESTING FEATURE OF THE STUDY IS SHOWN ON PAGE 12 WHICH DEMONSTRATES THAT GENERAL GOVERNMENT DEBT AS A PROPORTION OF GDP HAS FALLEN IN THE UK IN CONTRAST TO MOST OTHER INDUSTRIAL COUNTRIES. (INCREASES ARE PARTICULARLY NOTABLE IN JAPAN, ITALY, DENMARK AND BELGIUM). THIS FALL IS PROBABLY THE RESULT OF TWO DIFFERENT FACTORS; FIRST THE EROSION OF THE REAL VALUE OF PUBLIC SECTOR DEBT BY INFLATION IN THE 1970s AND SECONDLY THE REDUCTION IN PUBLIC SECTOR DEFICITS SINCE THEN.

AT

5 JANUARY 1984

CTF Sheenagh  
Wried Ball

FROM: M A HALL  
3 January 1984

PRESS OFFICE NOTE

c c Chancellor  
Mr Bailey

FINANCIAL TIMES STORY : "TREASURY SHELVES WORK ON PUBLIC SPENDING STUDY"

In commenting on-the-record on Max Wilkinson's story in today's FT, we should say there is no truth in the story that the Treasury's work on long term public expenditure has been shelved. Work is in fact continuing on long term public expenditure trends.

2. A Green Paper is only one of a number of possible ways of carrying forward discussion of long-term public expenditure, and Treasury Ministers have at no point made undertakings to publish one. It is still for consideration whether the Government will in fact publish a document. A good deal of work is involved, and it is most unlikely that anything would be published before the next Public Expenditure White Paper.

3. We can explicitly deny, if asked, the idea that the Treasury's work has run into the ground because of an absence of political decisions.

MAH

M A HALL