



10 DOWNING STREET

From the Private Secretary

27 September 1983

*File TRP
be for the Mount*

Public Expenditure

Dear Margaret,

LONG TERM PUBLIC EXPENDITURE: OPENING UP THE DEBATE

The Prime Minister has seen the Chancellor's minute of 20 September, together with the attached draft minute to colleagues seeking their co-operation in opening up the public debate on public expenditure in the longer term.

The Prime Minister has minuted that she is content with the draft minute in substance but fears that once such a minute were despatched it would immediately leak into the Press. The Prime Minister looks forward to discussing this problem with the Chancellor next week.

I attach a draft speaking note prepared here for the Prime Minister on this subject, together with a background note for use by the Press Office. I would be grateful for any comments you may have on these.

Yours sincerely,

Michael Scholau

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

JK

26 September 1983

MR INGHAM

cc Mr Scholar

QUESTIONS ON PUBLIC EXPENDITURE

I thought that some further answers to questions about public expenditure might usefully supplement Michael Scholar's note to the Prime Minister of 21 September.

Why is this Government obsessed with negative spending cuts?

The most successful countries since the War - Japan, Switzerland, West Germany - have all kept government expenditure under control. Their governments have borrowed less of their nations' wealth and so have borrowed it more cheaply; lower interest rates have been a prime element in the spectacular growth of prosperity in these countries. As a result, they can spend far more on health and welfare than we do. There is nothing negative about their achievement.

Isn't the Government betraying its election promises not to dismantle the Health Service?

No. As with other programmes, we are sticking to our published targets for the period covered by the Public Expenditure Survey. We are keeping our word, not breaking it. Those targets actually provide for a modest real increase of expenditure on health of $\frac{1}{2}$ per cent a year. Over the past 10 years, National Health Service staff increased by 25 per cent. That means nearly 200,000 more doctors, nurses and other staff. There must be a limit to the numbers of staff required to run a modern hospital. Yes, there are more elderly people in the population who are likely to require treatment. And there are also more expensive medical techniques. But modern methods also mean speedier recovery from operations, more accurate diagnosis and quicker treatment - all saving money. Many doctors will also agree that there are substantial economies to be found in the running of hospitals without affecting patient care, for example, in purchasing, laundry, catering, cleaning, administration. An Inquiry led by Mr Roy Griffiths, the Managing Director of Sainsburys, is only one of our initiatives to secure better management in the Health Service. Nor is it true that the Health Service is being singled out for punitive controls. The Government's determination to secure value for money applies to every programme. And we expect Health Authorities to carry

out their responsibilities to the patient as well as to the taxpayer.

Isn't this obsession with Government expenditure mere Thatcherite dogmatism?

If it is, Thatcherism seems to be rampant throughout Europe. Indeed, many of the recently elected Socialist leaders on the Continent are embarking on measures considerably more rigorous than anything in Britain:

Mr Craxi in Italy is proposing to means-test both disability and retirement pensions.

Mr Soares in Portugal has started a privatisation programme.

Mr Palme in Sweden has introduced a budget to reduce real wages by 4 per cent.

Mr Papandreou in Greece and Mr Gonzalez in Spain are also attempting to reduce real wages and cut government spending.

And of course, M. Mitterrand has introduced austerity measures of a kind not seen in Britain since the Attlee era.

Throughout Continental Europe, this retrenchment is regarded not as Thatcherism, but as realism.

FERDINAND MOUNT

F.M.



10 DOWNING STREET

3

Prime Minister

Public Expenditure

(Flag A)

Nigel Lawson [suggests you

minute him, copied to the Cabinet

as attached. If you agree please initial
minute.

I have added Annex B - a

draft speaking note, on which Bernard

or have worked. Are you content

with it?

I like the minutes
- but if we

MUS 23/9 send it

round the Cabinet - it
will be in the Press
within 24 hours
MS

PRIME MINISTER

CHANGING PUBLIC ATTITUDES TO PUBLIC EXPENDITURE

You asked Bernard and me to work up material you could use as part of a campaign by senior Ministers to try to change the confused and hostile climate on public expenditure control, "the cuts", and so on.

I attach a draft on which Bernard, ~~Ferdie~~ and I have all worked. Its main defect is that we do not know yet its occasion or its audience, so it is inevitably unfocused. Suitably modified, it might be part of a speech; or a speaking note for a television interview.

21 September 1983

A
cc No

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

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE: OPENING UP THE DEBATE

In my minute of 12 August, I offered further advice on what might be said or circulated to Cabinet on this subject.

2. The Chief Secretary and I do not want to press for Cabinet discussion, either of the substance or of the question of public debate, before we have secured decisions on this year's Survey. But we do think it would be helpful if you were to write now to Cabinet colleagues, seeking their co-operation in opening up the public debate, and it might be useful to accompany this with a short "briefing note" on the points that Ministers might make in public speeches etc. A draft of such a note to colleagues is annexed. If you felt able to make a speech drawing on this material yourself - as the draft assumes - it would help to get the campaign off to a good start.

3. You may wish to discuss this before deciding whether to circulate guidance on these lines.

Margaret O'Hara
(N.L.)

20 September 1983

(approved by the Chancellor and
signed in his absence)

Public expenditure

DRAFT MINUTE FROM THE PRIME MINISTER TO THE CHANCELLOR AND CABINET COLLEAGUES

PUBLIC ATTITUDES TO PUBLIC SPENDING

Public expenditure is too high; has tended to rise faster than the growth of the economy, and has risen by 5 per cent in real terms since we took office; and on existing policies is likely to go up by a further 10 per cent in real terms by the end of the decade. That would mean a vicious circle of high taxation - and ours is already much higher, at 40 per cent of the national product, than any of our main industrial competitors except the French - leading to inadequate incentives, continuing poor industrial performance and low growth, and a still higher tax burden.

2. The action required to break out of this circle plainly ought to command public support. And I believe that our decision to plan to keep expenditure broadly constant over the next 3 years was widely welcomed. Yet in the present climate of public opinion, action on individual programmes to reverse the trend over the decade would be unpopular. So we need to change the climate; and to press home the argument that the higher growth the country needs will not happen, on a lasting basis, unless we first succeed in reducing the burden of spending, taxes and borrowing. We need to demonstrate the link, through lower taxation, between lower public spending and more jobs.

3. The Chief Secretary will be reporting to Cabinet next month on his discussions with colleagues on the implications of this year's Survey decisions for the later years 1987-88 and 1988-89. But we need not wait until then to start working collectively to change the climate of public opinion. Our aim should be to make press and public face up to the problem, recognising the demographic and other trends causing some elements in public expenditure to rise; and the damage if the overall rise were not reversed. We need not argue for specific solutions at this stage: these can be allowed to emerge from the debate; and it will be easier for us to identify and implement solutions if it becomes generally accepted that public expenditure savings are inherently desirable.

4. As the next step in our work on longer term public expenditure, on which I undertook on 21 July to reflect, Cabinet colleagues may find it useful to have the enclosed background briefing ^{at Annex A} on the longer-term consequences of current public spending policies (and their tax consequences), illustrating how high public spending, far from stimulating growth and job opportunities, damages both. I intend ^{myself} to speak along ^{the} these lines ^{myself}, and Treasury

of the text at Annex B

Speaking on similar lines

Ministers will be ~~doing the same~~. We must all take every opportunity to get this message across - in our own speeches and statements, and by encouraging Parliamentary colleagues (and possibly the Treasury Select Committee), party spokesmen at all levels, and sympathetic correspondents, academics, and commentators, to address the issues, and help change the climate. The Chief Secretary will be glad to arrange more detailed briefing for any Minister who would find this useful.

5. Copies of this minute go to all members of Cabinet, and to Sir Robert Armstrong.

Personal

as from
HMT
14 9/83

DA

Dear Michael,

I have scribbled all over Bernard Ingham's draft. I hope you can read my scrawls. The main message is all right. But I've corrected some minor errors; added some more material; and - on the last page - stuck my neck out a bit. (You may think this goes too far).

The Chancellor will be mentioning the PM in the next day or so, amplifying his proposals for a campaign of public education.

over

Let us have a word some time. I
see no reason why this need reach the
PM before tomorrow's Cabinet — it's
not directly relevant.

Yrs

Peter Mountfield

M G Scholar Esq
10 Downing St.



10 DOWNING STREET

MR SCHOLAR

PUBLIC EXPENDITURE - DRAFT STATEMENT

You will recall that in response to my minute of August 31 the Prime Minister approved the idea of a draft statement designed to educate public opinion on the public expenditure/taxation/growth/jobs nexus.

I undertook to produce a first draft on which we might co-operate.

I attach my first shot at a statement. It is aimed at the unsophisticated general public and is very much on the lines proposed in my minute.

You may care to consider and discuss. It does however occur to me that the Prime Minister might like to see a draft before Cabinet on Thursday.

B Ingham
12.9.83

DRAFT STATEMENT ON PUBLIC EXPENDITURE

Each autumn the Government reviews its plans for public expenditure over the next three years.

The plans for the first two of these three years are public property because they are published, usually in November, when Ministers have completed their review. *have already been in the Public Expenditure White Paper which followed the previous year's review.*

The review also rolls the plans forward and so fills in the figures for the third year.

This is not then a hole-in-the-corner exercise. Everyone knows - or has the means of knowing - what the Government plans to spend and how each review has affected those plans; whether the planned expenditure has been cut back or whether it has been allowed to grow.

The popular impression in Britain today is that this Government has systematically and consistently cut public expenditure.

It is certainly the Government's objective to reduce the share taken by public expenditure of our national income for reasons I shall explain later. But it has not yet achieved that aim.

You may think it would be surprising if it had in view of the need to meet the cost of the rise in unemployment, for example, or to finance more pensions as people live longer - both of which are the common experience of all industrial countries. *It has had to pay for pensions and health care.*

On the other hand, you may be surprised to hear that the Government has not cut total public expenditure since all you seem to read in newspapers or hear on radio and television is news about cuts, cuts and more cuts.

The Government has had some success. It has certainly cut back the public expenditure planned by our predecessors. This was quite frankly insupportable. It would have crippled us and thrown even more people out of work.

This Government has consistently year after year refused to entertain all the bids for higher public expenditure which have rolled in. Consistently it has cut those bids back. But it has not succeeded in eliminating all of them. That is why total public expenditure has risen.

So the truth is that this Government has certainly slashed the hopelessly unrealistic plans left by the Labour Government. It has also cut back proposal for more spending than we planned. But it cannot claim to have cut public spending overall.

The facts are simply stated. In spite of all the Government's efforts the trend of public expenditure has been rising over the last four years. It is now 5% higher than it was in 1979, even allowing for the rise in prices.

And all the forecasts and projections suggest it is likely to go on rising unless we do something about it.

For the next two years it is planned to remain more or less steady. But the underlying pressures I have described will then start carrying it steadily upwards again unless we do something about it.

I have said in public many times that the Govt has published its expenditure plans and intends to stick to them. To hold expenditure at this level will require an effort - running back the planned growth in some programmes to make room for desirable or essential projects.

This is partly because, thanks to our rising standard of living, people are living longer. More people will enjoy an increasingly longer retirement - and draw their pensions longer and require more health care because the older we get the more running repairs we require.

Another reason is that medical progress provides more and more means of treating - and in many cases actually keeping alive and well - patients who only a few years ago would sadly have died.

And yet another reason is that more people want to stay longer at school, in college or at university.

All these - and other - developments show how human progress is lengthening and enlarging our lives.

But we must never forget that progress has to be paid for. It is prudent, not callous, to think of the bill. If we ignore it - if we press on regardless of the means of meeting the cost - we shall put at risk our entire ability to provide the things people need and want.

So the Government must always approach its future spending plans with a critical eye on three things:

- the use to which public spending is to be put;
- the likely growth in the nation's income; and last but not least important
- the proportion of the nation's income which will have to be taken back in taxes to finance the level of public spending which is eventually agreed.

We must look critically at how public money is used because public spending is not necessarily a good thing - any more than it is necessarily always a bad thing. But if it is used inefficiently, employed unnecessarily or just plain wasted it is a very bad thing indeed for all of us.

If we allow public money to be frittered away we might just as well throw our cash down the drain. For there is only one source of finance for public spending - the taxes which you and I pay out of our hard earned wages and salaries.

And we in Britain already pay too much tax. A higher proportion of our national income goes in tax - 40% - than that of any of our competitors apart from France.

The more people are taxed the less incentive they have to earn more; the bigger the millstone around the necks of enterprising individuals; the firmer the brake on industrial performance.

We must ease the burden of taxation if we are to create the resources needed now and longer term to provide for a better life in Britain.

We can only do that if we first curb and then reduce public spending and ensure at every turn that what is spent is used efficiently and to real effect.

In that way we shall oil the wheels of wealth creation instead of causing them to seize up by permitting such a high level of public expenditure that it can only be financed by a level of taxation that inhibits the very growth we seek and need.

It follows from this that the route to a better performance by industry and commerce and more economic growth - and therefore more jobs - is lower taxation arising from lower public spending under tight control.

The experience of the past four years shows all too clearly how difficult it is to break out of the vicious circle of high expenditure leading to the prospect of every higher taxation.

But that is what we must - and can - do over the next 4-5 years, starting now.

ends

Our experience in the last 4 yrs has shown
X that there is plenty of room for greater
efficiency. We have chalked up
substantial savings, and there are
more to come. But administrative
economies alone are not enough.
We shall need to look hard at some
of our spending programmes themselves
- ask ourselves whether all these
things need to be done in the
public sector at all; or ~~could~~ if
they must, whether they should be paid
for; or whether the ~~hard~~ cost is too great.

Public Expenditure

CONFIDENTIAL



File

bc
Nick Owen
Ferdie Mount
BTP

10 DOWNING STREET

From the Private Secretary

13 September 1983

Public Expenditure Survey 1983
October Cabinet

The Prime Minister has considered the Chancellor's minute of 12 September about the timing of the next Cabinet discussion on public expenditure.

The Prime Minister, too, favours a discussion on the earlier of the two dates, 20 October.

I am sending copies of this letter to John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

PC

John Kerr, Esq.,
HM Treasury

CONFIDENTIAL



PA

10 DOWNING STREET

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ends



Prime Minister

SC NO.

(1)

Agree this timetable?

Treasury Chambers, Parliament Street, SW1P 3AG (The risk is
01-233 3000

PRIME MINISTER

Yes no that the Autumn Statement will slip to early December)

PUBLIC EXPENDITURE SURVEY 1983 - OCTOBER CABINET

MS 12/9

I have been considering the timing of the next Cabinet discussion on public expenditure, which might be on either 20 or 27 October.

2. As you know this year's Survey decisions seem likely to be more difficult than last year's. We are faced with strong bids of some £2½ billion for 1984-85 (with comparable sums in the later years) and we shall be trying to hold to the published planning total, without recourse to the planning reserve and without last year's advantage of a falling rate of inflation. The search for offsetting savings will therefore require a number of painful choices, and Cabinet may well be unable to reach final decisions in a single meeting.

3. The Chief Secretary intends to complete his initial bilateral discussions by the end of September. If at that stage there appeared to be little possibility of early Cabinet agreement, you might wish to consider setting up a Ministerial Group to narrow the range of differences before a full Cabinet discussion. This might then follow on the later date of 27 October. The early establishment of such a group could, however, lead to rumours of disagreements over public expenditure both before and during the week of the Party Conference. I should naturally prefer to avoid this. And I suspect that a Ministerial group might also find it easier to make progress after an initial discussion in Cabinet.

4. On balance, therefore, I would favour a discussion in Cabinet on the earlier of the two dates, 20 October, which has the added advantage of being before the return of Parliament. If a Ministerial group were then thought necessary, there would still be adequate time for it to complete and report on its work, and for Cabinet to reach final decisions by mid-November. A later start could mean delaying the Autumn Statement until the end of November or early December.



5. I propose, therefore, that to allow time for further work if necessary, the Chief Secretary should plan to report back to Cabinet on 20 October, the earliest feasible date - given the Party Conference - after the completion of his bilaterals. The papers would need to be circulated on 17 October at the latest. We would of course retain the option of allowing the Cabinet discussions to slip to 27 October, though that now appears less advantageous.

6. I am sending copies of this minute to the Chief Secretary and to Sir Robert Armstrong.

(N.L.)

12 September 1983

CONQUEROR