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Chancellor of the Duchy of Lancaster

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CABINET OFFICE,  
WHITEHALL, LONDON SW1A 2AS

13 January 1984

Dear Peter,

In your Private Secretary's letter of 10 January to the Private Secretary at No 10 you draw specific attention to the new presentation of capital expenditure in Table 1.13. You comment that;

"It can be demonstrated from this table that in real terms the level of this expenditure has been broadly the same since 1978-79."

There is one aspect of this which continues to be troublesome namely the argument commonly put forward that the privatization programme constitutes sales of capital assets by Central Government and should be set off against capital expenditure. On the basis of this argument the level of capital expenditure would be falling, not broadly constant. We are under constant attack by Jack Diamond on this point and he is drawing of course on his previous knowledge as Chief Secretary. The point is particularly sensitive in relation to the new White Paper presentation as one of the major factors in producing the broadly constant level of expenditure is that receipts from Council Houses have been added back. I know what the answer to the Diamond argument is: but I wonder whether there might be some merit in pre-empting the argument in the White Paper rather than leave the field wide open to the Diamonds. The White Paper already contains a "Commentary" on the new Table but it is a pretty meagre commentary.

There is another strand in the Diamond argument, namely that what we are looking at is gross capital expenditure without any indication whether or not that is sufficient to maintain our capital stock or whether, as Diamond would argue, our capital stock is deteriorating. This is much more difficult to answer as the factual information needed is presumably not available.

I am sending copies of this letter to all other members of Cabinet.

  
COCKFIELD

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
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Econ for Public Exp.