



Public
expenditure

File

AT

10 DOWNING STREET

From the Press Secretary

29 January 1985

Jim Smith

The Lord President has asked me to send to you a copy of the attached background note on public expenditure which has been approved by the Chief Secretary. He hopes that it will be circulated among your group of MPs for use in the press and on radio and television.

Jim Smith

Bernard Ingham

BERNARD INGHAM

Hugh Taylor, Esq.,
PS/The Home Secretary.

*Copied to all Ministers +
Heads of Information on
Economic + Social Policy Group*

AT

PUBLIC EXPENDITURE
BACKGROUND

The government has just published its expenditure plans for the next 3 years. In total the plans are unchanged from those published last year. And the year before that.

Firm control over expenditure - sticking to the plans - is central to the government's economic policy. The Medium Term Financial Strategy sets out the path to lower borrowing and so to lower interest rates. Control over spending is the first step along this path. Lower inflation and scope to make tax cuts are the goals.

It is not an easy task. Every day brings some new demand for more spending on someone's pet project - often accompanied by a wholly inconsistent call to cut taxes. But gradually the government is getting on top of the problem.

In the last 20 years, public expenditure has risen in real terms - i.e. in addition to inflation - by 90 per cent. Gross Domestic Product has risen by 50 per cent. So public spending has been taking a steadily greater share of national income. Since 1981, this trend has been reversed.

Over the next 3 years, the government plans to keep expenditure constant in real terms.

This does not mean "cut, cut, cut" as some have depicted. It means sticking to the overall plans published last year and the year before. It means that as the economy grows, spending will fall further as a proportion of national income.

The government is not indiscriminate. Spending in some areas has risen - for example, on health, pensions and child benefits as well as on defence and law and order. There have had to be economies in other areas to balance the books. The government adopts the sort of approach you would expect to seek out economies:

- it asks if a particular spending is necessary;
- it asks if that particular job could be undertaken by the private sector instead;
- it asks if the service could be provided more efficiently, cutting out waste.

It is important that the government achieves its latest plans. It is determined to do so. Controls over spending, especially by local authorities, have been improved. Provision has been increased for the programmes where the amounts required are difficult to forecast accurately - for example, social security where the amount spent reflects eligibility and take-up. Reserves for contingencies are higher than in previous years.

Why is it important?

-Because there is only so much money to go round. So, by holding down public expenditure, there will be more cash available for the private wealth-creating sector. And that will provide productive investment and help to create real jobs.

-Because by holding down public spending, the Government will reduce its need to borrow money to finance its programme. That will help to ease the pressure on interest rates and so reduce industry's costs - another way of encouraging the creation of more jobs.

-Because holding down public spending will create more room for tax cuts. And the more successful the Government is in curbing spending, and the more the economy grows - and we have now had nearly 4 successive years growth - the more the Government can ease the excessive burden of taxation

That is good in itself. But it also encourages people to take jobs, to work harder and be more enterprising. So holding down public expenditure contributes to higher employment

The central objective of government policy is to hold down - and drive down - inflation. It is only if we do this that there is a chance of sustaining economic growth, keeping British industry more competitive and putting more people to work.

Recent events in the markets show just how important it is that we achieve these objectives. They show that holding down public expenditure is neither dogmatic nor a fad. It is directed at two of the main concerns of Government - reducing unemployment and bringing inflation down. And it brings the prospect of a reduced tax burden.

What is more, holding down public expenditure does not necessarily mean worse services to the people. This is because there is such a thing as greater efficiency - of getting more value out of the money put into a particular project.

This is a "value for money" Government and here are just a few examples of how it is making taxpayer's money do more work:

- the size of the Civil Service has been reduced by 16 per cent since 1979 and by 1988 it will have fallen by 20 per cent;
- there is a substantial and sustained efficiency programme in the National Health Service: for example 900,000 more in-patients and day cases were treated in 1983 than in 1978 and there were 2½ million more out-patient attendances;
- more social security beneficiaries are being helped with fewer staff;
- on Defence, resources are being switched from support staff - the backroom boys - to front line units.