

PRIME MINISTER

file 6

PUBLIC EXPENDITURE AS A PROPORTION OF GDP

You already have Roy Jenkins' speech of 1976 which said that public expenditure greater than 60 per cent of GDP might threaten the plural society.

On the old definition public expenditure amounted to 56 per cent of GDP in 1975/76 and the Treasury statisticians believe it would have been around 55 per cent in 1984/85 on the same definition.

The 1984/85 figure does not include expenditure by corporations which were in the public sector in 1975/76 which have been privatised since 1979. I think this is right. Privatisation itself represents a policy change to reduce the extent of public sector economic control.

David Norgrove

1 October 1986

E.B.
SRWAJU

POINTS TO MAKE IN SETTING UP THE STAR CHAMBER

1. We decided in July that it would be right if necessary to ask the Lord President to set up his Star Chamber again. The Chief Secretary's report shows that it will be necessary to do that.
 2. A matter for regret. Ask colleagues to show restraint and to examine the need for their bids with the greatest possible rigour.
 3. It is most important that information on the discussions so far or on the discussions in the Star Chamber should not be given to the media. All experience shows just how damaging and divisive those leaks can be. We are our own worst enemies on that.
 4. It is also particularly important that no details should be disclosed at next week's Party Conference and no commitments entered into that would in any way prejudice our public expenditure discussions.
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SRWAJT

POINTS TO MAKE IF NECESSARY

1. Restraint of public expenditure is an essential part of our strategy for a more enterprising, productive and free society.
2. Our record is not good: more than 8% higher in real terms than when we took office. Had to restrain borrowing so taxes have risen as a proportion of GDP (2½%).
3. Have to demonstrate that this Government is capable of managing its affairs prudently. We expect businesses to perform. We must too.
4. Particularly important at this time of pressure in the financial markets.
5. We have to set our priorities and we have to look for greater efficiency. All studies, whether by Audit Commission, Efficiency Unit or others, show the scope for that.