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FROM: ROBERT CULPIN
DATE: 8 JULY 1987

CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Sir T Burns
Mr Anson
Mr Monck
Mr Turnbull
Mr Luce
Mr Scholar
Mr Gieve
Mr Tyrie

PUBLIC EXPENDITURE CABINET

I attach some notes for your meeting tomorrow. They reflect discussion with Mr Turnbull.

The first page gives a possible line to take. I have then dictated, separately, the sort of follow-up conversations I can imagine having.

ROBERT CULPIN

Encs.

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INGHAM COMMUNIQUE

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income. Within that constraint, the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes and the planned total for spending, and will, as usual, announce decisions in the Autumn Statement in November.

Text

"My Government .... will maintain firm control of public expenditure so that it continues to fall as a proportion of national income and permits further reductions in the burden of taxation." - Queen's speech.

Will the planning total be increased?

I can't tell you whether the total will be changed, or if so by how much, or where the money will go. None of that is decided.

There may be some change in the total. But there will be no change whatever in the policy that public expenditure declines as a proportion of GDP.

That is not just an aspiration. It is what we have achieved since 1982-83.

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TREASURY NOTES FOR SUPPLEMENTARIES

Is the planning total LIKELY to be increased?

Have to wait and see. Need to conduct the review first.

Why unable to decide, as usual, in July?

Cabinet has decided to stick firmly to the policy.

Details of Survey running a little later this year. Election. Reshuffle. [Local authorities - if no July announcement.]

Leaves things open ended/breaks rule that you must decide what you can afford before examining particular programmes?

No. Commitment to take smaller share of GDP is a binding constraint.

Is the policy that public expenditure should decline as a proportion of GDP by any old amounts or by some predetermined ones?

It should fall to the sort of levels set out in the White Paper.

Silly to put absolutely precise figures on the path from year to year, because it depends on what happens

to GDP as well as what happens to spending. But the ratio should certainly decline as much as in the White Paper.

Including or excluding privatisation?

Either.

What is the maximum increase in the planning total this could imply?

Not going to speculate. Early days. But clearly the commitment that public expenditure should grow less fast than the economy as a whole is a major constraint.

When was the last time the Treasury conceded, before the bilaterals, the possibility of an increase in the planning total?

[Being checked]

Why are you considering the possibility this time?

You've seen the local authority settlement [if there is a July announcement]. You know some of the other things in the pipeline - for instance, the continuing extra cost of the nurses' pay award. [And it is plain that the economy is strong.]

We have a tough objective for public expenditure, and we mean to stick to it. But the figures have to be realistic as well.

What's the point of having planning totals when you've raised them substantially three years running?

Better a really demanding target which you may have to raise a bit than an undemanding one.

Proof of the pudding: public expenditure is falling as a proportion of GDP for the fifth year in a row.

Will there be Star Chamber?

No doubt: established part of the constitution.