CONFIDENTIAL

Prime Minister 2

[initials] 13/10

CABINET OFFICE

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From: John Sparrow

Qa 06089

13 October 1982

Douglas Board Esq
Lord Privy Seal's Office
Old Admiralty Building
Whitehall
S W 1

MT

Dear Douglas,

I enclose material for Lady Young's use in replying to tomorrow's question from Lord Wells-Pestell about the CPRS report.

The material in sections B-D of the supplementaries and background notes have been supplied by DHSS and DES and seen by the Treasury. Part of the material in section A has been prepared on the advice of the Treasury but they may have further comments on it.

Mr Bailey and Miss Mackay will be available to attend the oral briefing which you plan to arrange for lunchtime tomorrow.

I am sending copies to Willie Rickett (No 10), David Clark (DHSS), Imogen Wilde (DES), John Gieve (Chief Secretary's Office), Richard Mottram (Defence), and Richard Hatfield (Cabinet Office), who should pass any comments direct to your office.

In view of the sensitivity of this subject, I should be grateful if recipients of the enclosed material would restrict its distribution to a minimum.

Yours ever

Gerry Spence

G B Spence

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House of Lords

Parliamentary Question for Oral Answer on 14 October

Lord Wells Pestell (Labour)

To ask HMG whether they will publish the recent report of the CPRS on the future of the welfare state.

SUGGESTED ANSWER

I assume that the noble Lord is referring to an analysis undertaken by the Central Policy Review Staff of possible ways of restraining the growth of public expenditure in the longer term. This was a confidential analysis prepared for Ministers and will not be published.

NOTES FOR SUPPLEMENTARIES

A THE CPRS REPORT AND PUBLIC EXPENDITURE

1. Why not publish report in view of extensive leaks and press discussions?

Government agree that debate about the long term problems of the welfare state and public spending should not take place on the basis of leaks and press speculation. But this CPRS document would not provide an appropriate vehicle for a public debate. (This is because it was not a self-contained fully worked out report but simply a list of possible options.) Moreover to publish a confidential document because it had already been leaked would encourage more leaks.

2. Will the Government prepare a document for public discussion?

It is for my rt hon Friend the Chancellor of the Exchequer, in consultation with my rt hon Friend the Prime Minister, to decide whether to initiate a public debate on the problems of public expenditure in the longer term, and if so how this might be conducted.

3. General questions about contents of the report.

Since no further action is to be taken on the CPRS document, the question of what it recommended or discussed has no practical significance for Government policy. For the record, however, the report did not make policy recommendations. It discussed a number of possible options for restraining expenditure (as a basis for deciding whether further work should be done).

4. Has CPRS report been shelved?/What action does Government plan to take on the report?

The CPRS document has not been discussed by Ministers and no discussion is planned. But the Government will continue to seek ways of restraining the growth of public spending.

5. Chancellor of Exchequer's Weekend World interview (10 October) shied away from major cuts in spending programmes. Have these been dropped?

I understand my rt hon Friend made very clear the need to restrain the growth of public spending and over time to reduce public expenditure as a percentage of national output.

6. Why is it necessary to reduce public spending? (Other countries spend more as a percentage of national output.)

The present level of taxation is oppressive on the great mass of working people. In order to foster economic growth it is important to get tax levels - and interest rates - down. The only way of doing this, while keeping a grip on inflation, is to reduce the share which public spending takes of national output.

7. Government split about need to cut public spending?

There is no disagreement on the need to restrain public spending, nor on the need to provide an adequate minimum level of care and standards for those in our society who cannot fend for themselves.

NOTES FOR SUPPLEMENTARIES

B. NATIONAL HEALTH SERVICE

1. Did report suggest abolishing/ privatising NHS?

[As I have already made clear] the report made no recommendations and has no significance for Government policy.

2. Will the noble Lady confirm that the Government have no plans to abolish the NHS?

I can certainly confirm this. As my rt hon Friend the Prime Minister said to the Party Conference last week "the National Health Service is safe with us ... the principle that adequate health care should be provided for all, regardless of ability to pay, must be the foundation of any arrangements for financing the health service."

3. Will the noble Lady reaffirm the Government's commitment to the NHS?

Yes. We have shown our commitment to the NHS by planning an increase in services of 5% in real terms between 1978-79 and 1981-82, and further growth is planned for this year.

4. Why are the Government considering alternatives?

This Government, like any other responsible Government, have a duty to make sure that every penny is properly spent. We would be failing in our duty if we were not to look at other ways of financing health care to see if they offered any improvements on the present system. That is why the former Secretary of State for Social Services set up a study to look at methods of financing, drawing on the experience of other countries. But as the present Secretary of State said on 30 July in another place:

"The Government have no plans to change the present system of financing the National Health Service largely from taxation ....."

5. <u>Is not the Government encouraging private provision by stealth?</u>

We welcome the growth in private health insurance. But there is no contradiction between this and supporting the National Health Service. Private insurance brings in more money, helps to reduce waiting lists, and stimulate new treatments and techniques. Our full commitment to the NHS is demonstrated by our record.

NOTES FOR SUPPLEMENTARIES

C. SOCIAL SECURITY BENEFITS

1. Does the Government intend to de-index the uprating of social security benefits as suggested in the CPRS report?

[As I have already made clear, the report made no policy recommendations and its contents have no significance for Government policy.] So far as social security benefits are concerned, there has been no change in the Government's position. Our policy has been to maintain the value of retirement pensions and other related benefits and that we have done. Next month's uprating, which will add some £3 billion to the cost of social security benefits, will protect the value of all weekly benefits.

2. If there are no present plans to de-index the uprating of benefits will a future Conservative Government - if re-elected - make this change?

I emphasise that there are no plans to alter the present arrangements. As to the future, all I can say is that, whatever Government is in power, - [and I expect it to continue to be this one for some time to come] - it will be the country's ability to meet the cost of public expenditure programmes which will be the determining factor in deciding their size and scope.

3. Will the Government restore the 5 per cent abatement of unemployment benefit?

Our position on this has been made clear. We reviewed the possibility of restoring the abatement when the benefit was brought into tax in July but concluded that we could not afford to do so. The matter is being kept under review and I have nothing more to add.

/4. Will there be an "overshoot" on this year's uprating and do the Government intend to claw it back?

4. <u>Will there be an "overshoot" on this year's uprating and do the Government intend to claw it back?</u>

Next month's uprating of benefits is based on a 9 per cent forecast movement in prices between November 1981 and November 1982. In addition, an extra 2 per cent has been added to compensate for the shortfall in last November's uprating. Inflation has been falling faster than was forecast at the time of the Budget and it is likely that the outcome will be lower than the 9 per cent forecast. We will not know the extent for a couple of months yet. The November 1982 uprating will, of course, go ahead as planned. The 1983 uprating will be decided nearer the time. It will depend on the forecast movement in prices, which will be made around the time of next year's Budget, and whether the Government decides to take account of any overshoot this year. No decision on this has yet been taken. Consideration of the outcome of the prices forecast is normal every year.

NOTES FOR SUPPLEMENTARIES

D. HIGHER EDUCATION

1. Is the Government considering any scheme for charging for higher education?

We are not considering any specific scheme, but it is naturally sensible that we should continue to review whether higher education is being organised in the best possible way in terms of the aspirations of the student, the economic and social needs of the country, and the burden that higher education provision places on the taxpayer.

2. Wouldn't any system of charging for higher education be unfair on the less well off?

This would of course mainly depend on the extent to which assistance in the form of scholarships or loans was available. Higher education currently directly benefits its recipients at the expense of the taxpayers - many of whom will never earn as much as most of the graduates they are helping to educate.

3. Shouldn't opportunities for free higher education be expanded?

The Government has to consider priorities right across the spectrum of provision, including for example the balance of expenditure between full-time higher education and opportunities for further education and training for those who leave school early.

4. Is the Government committed to intorducing a loan scheme for student grants?

The Government has reached no decision on the introduction of a scheme but Ministers are currently considering ways in which a loans element might be incorporated into the financing of student maintenance.

BACKGROUND NOTES

1. Lord Wells Pestell's question refers to the CPRS Cabinet paper on long term public expenditure whose main contents were leaked to the press in September and which has prompted widespread speculation about the Government's plans for the future of the welfare state, notably the National Health Service. (A selection of the main press comments is attached at Annex 1). Lord Wells Pestell is a former Labour DHSS Minister and it seems possible that his questioning will concentrate on the implications for the NHS.

2. The existence of a report has been admitted. The suggested answer gives the minimum of information about the document necessary to dispel the impression that the CPRS presented the Government with recommendations on "the future of the welfare state". The refusal to publish the document is in line with the practice of successive Governments in declining to publish CPRS work which gives confidential advice to Ministers. (Some CPRS reports are published - see Annex 2).

3. Refusal to publish this document still seems appropriate, notwithstanding the argument (e.g. Guardian 12 October) that it would be better to publish it than to allow debate to proceed on the basis of press leaks and speculation. This point is dealt with in the notes for supplementaries (A1).

4. The notes for supplementaries and the remaining background notes are arranged in four sections:

A. The CPRS report and public expenditure in general.

B. The National Health Service.

C. Social security benefits.

D. Higher education.

5. A background note on the CPRS is at Annex 2.

BACKGROUND NOTE

A. THE CPRS REPORT AND PUBLIC EXPENDITURE IN GENERAL

1. The CPRS analysis was commissioned in July this year, at the request of the Chancellor of the Exchequer, to complement the report which Cabinet had commissioned in March from a Treasury-led group of officials, on the likely pattern of public expenditure over the next decade.

2. Both papers were intended to be discussed at Cabinet on 9 September. In the event, the CPRS paper was not discussed. The Economist article of 9 October (Annex 1) purports to give an account of the Cabinet's handling of the issue.

3. The Treasury paper outlined two scenarios for growth and public expenditure over the next decade. It concluded that on a pesimistic (but not unrealistic) scenario public expenditure would consume nearly 6 per cent more of GDP than in the Government's first year of office, while on a more favourable scenario public spending's share of GDP would be only slightly below the 1979-80 level. The Treasury paper identified four main programmes (health, social security, education and defence) as accounting for over 60 per cent of all spending. Against this background, the CPRS was asked to identify possibilities for making "major structural changes" affecting the larger programmes. The resulting CPRS paper identified a number of possible major options (defined as options offering savings at least £1 billion per annum) in these four main programmes, as well as some other approaches. The main options in the CPRS paper are reasonably accurately outlined in the side-lined portions of the Economist article of 18 September reproduced in Annex 1.

4. While a fair amount of the subsequent press comment was speculation, it is evident that the Economist at least has a very accurate and comprehensive knowledge of the contents of the CPRS paper while it is known that the Times has a full copy of the Treasury report. Government Ministers have not denied the existence of either report. There has been no formal statement on the status of the CPRS document or its contents. However, the fact that the report has been "shelved", has not been discussed and will not be discussed by Ministers has been made widely known both through unattributable briefing and through press comments attributed to the Chancellor of the Exchequer and the Chancellor of the Duchy. At the Conservative Party Conference at Brighton on 9 October the Prime Minister, without referring to the report or the press controversy, made clear the Government's continuing commitment to the National Health Service (see Section B of this note and notes for supplementaries).

5. There may be supplementary questions about the "Weekend World" television programme in which the Chancellor of the Exchequer participated on 10 October. In this programme Professor Alan Budd gave his own projections of public expenditure, which showed public expenditure increasing as a ratio to GDP throughout the 1980s. The programme then discussed ways in which large cuts in public spending might be made. (A transcript of this section of the programme is not yet available.) According to the Treasury, the basis of the

figures used in the programme do not tally exactly with officially accepted figures. There seems no need for the Minister to be drawn into discussion about the programme's public expenditure projections.

6. In the second half of the programme the Chancellor of the Exchequer stressed the Government's intention to secure a reduction in the percentage of GDP being taken by public expenditure. He refused to be drawn on individual options and the general flavour of the interview was to play down the idea of spectacular cuts. There was no direct reference to the CPRS report. In planning public expenditure he also advocated public debate on how reduced public spending could be brought about. He hinted at savings through privatisation (mentioning the sale of council houses as an example) and emphasised that savings of considerable significance could be achieved through the pursuit of greater efficiency, eg in the NHS.

BACKGROUND NOTE

B. NATIONAL HEALTH SERVICE

1. Health services are planned to increase by 5% in real terms between 1978-79 and 1981-82 (cash provision up from £6½ billion in 1978-79 to over £11 billion in 1981-82). Further growth planned in current year.

2. Prime Minister reaffirmed commitment to NHS in speech to Party Conference on Friday 8 October. She said:

> "We have a magnificent record on the NHS. Naturally we have a duty to make sure that every penny is properly spent. That is why we are setting up a team to examine the use of manpower in the NHS. Of course we welcome the growth of private health insurance. There is no contradiction between that and supporting the NHS. It brings in more money, helps to reduce waiting lists, and stimulates new treatments and techniques. But let me make one thing absolutely clear: the NHS is safe with us. As I said in the House of Commons on 1 December: 'the principle that adequate health care should be provided for all, regardless of ability to pay, must be the foundation of any arrangements for financing the health service'."

3. Patrick Jenkin, when Secretary of State for Social Services, set up a working party of officials with two private sector consultants to explore ways of financing health care. Working party reported to Ministers earlier this year. Norman Fowler announced Government's decision in PQ on 1 July:

> "Between 1978-79 and 1981-82 the Government provided for increases in National Health Service services of 5 per cent. There should be some further growth in services this year. The Government have no plans to

change the present system of financing the National Health Service largely from taxation, and will continue to review the scope for introducing more cost-consciousness and consumer choice and for increasing private provision which is already expanding."

4. Government have taken a number of steps to improve efficiency and accountability in National Health Service. Examples include: reorganisation of Health Service, introduction of annual reviews of Regions at high level, development of statistical indicators to assist in monitoring performance. Two recent developments: planned introduction of quarterly manpower returns from Regions; announcement of a small team, led by senior representative of private industry, to examine ways in which NHS uses manpower and to make recommendations.

BACKGROUND NOTE

C. SOCIAL SECURITY

1. The fact that the CPRS document discussed deindexation of pensions and social security benefits was picked up and discussed in several papers. At Brighton the Prime Minister pointed out that the Government had kept its pledge to protect pensions fully from inflation. But she gave no commitments as to the future. This line is reflected in the notes for supplementaries.

2. Question C4 in the notes for supplementaries (possible clawback of this year's uprating of benefits) may well come up, given the imminence of the uprating and the controversy which always surrounds the issue.

BACKGROUND NOTE

D. HIGHER EDUCATION

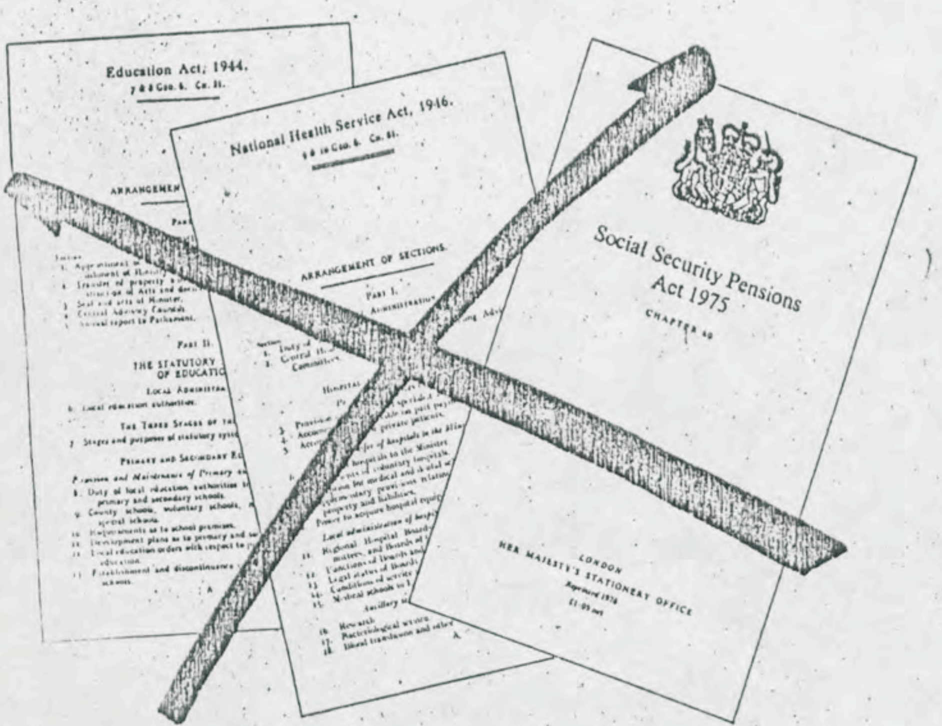
While publicity for the CPRS proposals was mostly focussed on the suggestion that there might be an increased measure of private financing for the health service, a scheme under which students would pay full cost fees for higher education courses, assisted in some cases by state scholarships, also received attention. A leader in The Times on 11 October discussed the possibility of charging and noted that some of the issues had been aired at the time of the Robbins report. The CPRS scheme is now shelved, but naturally ways of improving the organisation of higher education without increasing the burden on the taxpayer continue to be examined. The Secretary of State is particularly interested in exploring ways of encouraging diversity and fiscal independence in the university sector. DES is also currently discussing with the Treasury a scheme by which 50% of maintenance awards could be met by state financed loans. The details and timing of any such scheme have yet to be settled, and there is no Government commitment to its introduction.

ANNEX 1

PRESS REPORTS

Annex

THE ECONOMIST 18/24 Sept. 1982.



Hat yai

Thatcher's think-tank takes aim at the welfare state

The special meeting of Mrs Thatcher's cabinet on September 9th was devoted to a long discussion on the problems of controlling public spending. Far more intriguing, however, is what was not discussed: a paper from the Central Policy Review Staff, the government's think-tank, outlining options for radical cuts in public spending, many involving the dismantling of huge chunks of the welfare state. Cabinet wets were so appalled at the think-tank's suggestions that they argued successfully that it would be wrong for the cabinet to give it serious and instant consideration. But that will not be the end of the matter.

The think-tank's paper was circulated along with other cabinet papers on September 7th. It came with the seal of approval of the treasury, which recommended that it form the basis of a six-month study of a public spending strategy for the rest of the decade. This means that its ideas were not pulled out of the ether and that it has more significance than most think-tank papers. Here are details of its contents.

The paper begins by saying that, on present plans and assuming low annual economic growth, public spending will continue to gobble up at least its present 45% of gross domestic product for the foreseeable future. That is only 1% less than its peak under the last Labour government. If the Thatcher government is serious about cutting public expenditure, argues the paper, then it must consider some radical alternatives in the four areas that account for the lion's share of public expenditure: education, social security, health and defence.

The think-tank then deals with each one in turn:

- Education. Its most controversial suggestion is to end state funding for all institutions of higher education. Instead, fees would be set at market rates, at present around £12,000 for the average three-year course. About 300,000 state scholarships could be made available, along with student loans for those with the entry qualifications but without scholarships. The paper also says that there would be great savings if the state no longer had to provide for primary and secondary school education, but it acknowledges the political difficulties of abolishing state schooling. It considers moving to a system of educational vouchers for parents, which they could cash at schools of their choice to pay for their children's education. The idea has long been popular with free-market Tories and its supporters include Sir Keith Joseph (the education secretary) and Mr Ferdinand Mount (who recently became the head of the prime minister's policy unit in Downing Street). But the think-tank points out that vouchers would not cut spending and might even increase it, since parents at present footing the bill for their children's private education would qualify for state vouchers too. There are, however, some savings to be made in the school system by allowing the teacher-pupil ratio to rise. It has been falling, argues the paper, without any rise in the quality of state education.
- Social security. Big savings can be made, says the paper, if all social security payments—from pensions to supplementary benefits—no longer rise in line with inflation. There are echoes here of the Reagan administration's budget battles in the United States. The task of cutting federal spending in Washington has been made harder because of the political difficulties of abolishing the indexation of pensions.
- Health. The paper suggests replacing the national health service with private health insurance: this could save £3 billion-4 billion a year from a 1982-83 health budget of £10 billion. The problem is that the less well-off might underinsure, so the paper suggests that there might have to be a compulsory minimum of private insurance for everyone. In the meantime savings could be made by charging for visits to the doctor and more for drugs.
- Defence. The think-tank is short of bright ideas on how to curb the £14 billion now spent annually on the armed forces. It recognises that Mrs Thatcher does not want to budge from Britain's commitment to Nato to raise defence spending by 3% a year in real terms until 1986. It suggests, however, that beyond the mid 1980s defence's share of the nation's resources should be frozen. It points out that Britain spends a higher proportion of its gdp on defence than its

European allies and says that, in the long run, it would be to the country's advantage if defence was funded from the budget of the European community.

The think-tank's paper was circulated by Mr John Sparrow, the CPRS director and former merchant banker who is now widely regarded in Whitehall as a stalking horse for the treasury. A key drafter was Mr Alan Bailey (a treasury deputy secretary on loan to the CPRS, an expert on public spending and Mr Sparrow's deputy). In his own paper to the same cabinet meeting, Sir Geoffrey Howe, the chancellor of the exchequer said that a failure to shift social spending from its present trend would have severe consequences for the government's fiscal strategy. On the worst economic growth assumptions, and present welfare-state policies, the state's share of gdp could rise to almost 60% before 1990.

Treasury ministers were furious when the wets lined up en masse to block discussion of a paper which owed its inspiration to them. So was Mrs Thatcher. There is to be no record of the matter in cabinet minutes. The September 9th cabinet meeting produced the first wet-dry clash for over a year. It could be a harbinger of cabinet meetings to come. Mrs Thatcher sympathises with the think-tank's drift. But she is now in no doubt that to pursue such a radical course risks splitting her party wide open. Many of the think-tank's suggestions for health and education would be as unpopular with middle-class Tories as with Labour voters. But Tory wets expect that the think-tank's ideas will soon resurface in another guise.

Observer 19 September

Storm over secret Think Tank report

by AURIOL STEVENS

A FAMILY of four would have to pay £600 a year in health insurance and £950 a year for each child's school fees, if radical changes in public services, outlined by the Government's Think Tank were to be introduced.

It would also cost, on average, £12,000 to put a child through university, and all State benefits, including pensions, would be worth 10 per cent less than they are now.

The figures come from a discussion document circulated to members of the Cabinet this month by the Central Policy Review Staff. News of the document, which has been seen by THE OBSERVER, has caused a storm among both Conservative 'wets' and opposition politicians.

The report was drafted during the summer as a result of gloomy long-term economic forecasts drawn up by Treasury officials. Working on the most pessimistic projection for economic growth, the planning documents showed that maintaining public services at their present level would cost £12,000 million to £13,500 million more by 1990, an increase of around 10 per cent.

Since it is Government policy to reduce both borrowing and taxation, the Chancellor, Sir Geoffrey Howe, asked the Think Tank to devise ways of bridging the gap by cutting spending.

The report suggests that savings could be made by an 11 per cent across-the-board cut in all services. But this, it says, would be unpopular and impractical.

The Think Tank suggests instead a series of radical options, but warns throughout of the difficulties of carrying these through. The options are set out under three headings. The first, 'Partial Change,' suggests charging for higher education to save an estimated £1,000 million and increasing and extending charges for health services, to save another £1,000 million.

Under the second heading, 'Comprehensive Changes', they suggest charging for schooling, saving £3,000 million to £4,000 million; switching to a private insurance scheme in place of the National Health Service, saving £4,000 million; and de-indexing social security benefits, saving £3,000 million.

The third heading, 'Less Resources' suggests a cut of £1,000 million in education—and abandoning the present commitment to increase defence spending, to produce a saving of £1,500 million.

If the 'comprehensive changes' were introduced, the report warns, radical changes in the taxation and benefits system would be needed and these could be costly. 'If even the poorest had to pay full charges, this would exacerbate poverty to a level which we assume Ministers would judge unacceptable.'

It also warns that while public spending would be reduced, the proportion of 'the community's wealth' being spent on education and health would not be reduced.

Of all the options the two under the heading 'partial' are thought by Whitehall to be most feasible.

For higher education, savings of £1,000 million would be made if students were charged the full cost of courses. Means tested scholarships would be available for 300,000 students, or about three-fifths of the number of students now in higher education. Loans would be available for others.

Under health, the report says charges would have to be introduced for people now treated free — children and the elderly—for visits to GPs and for hospital places to produce savings of £1,000 million.

The Cabinet did not discuss the Think Tank's report in detail at the 9 September meeting, a meeting for which there are — exceptionally — no minutes. The departmental Ministers affected by the proposals have been asked to undertake further study of the suggestions and report back to the Cabinet.

Strenuous efforts have been made to prevent news of the exercise seeping out. When the first reports of it appeared in *The Times* two months ago, all copies of the relevant documents circulating in Whitehall were called in. Some members of the Cabinet are said to be anxious about the effects knowledge of such plans could have upon the party's electoral prospects.

HEALTH AND EFFICIENCY

The "Think Tank" to the right of them, the Labour Party Conference to the left: between the Scylla of a state-engineered takeover by private medicine and the Charybdis of a ban on private medicine altogether, what future for the National Health Service? The Central Policy Review Staff reportedly envisages up to a third of NHS activity being lured or pushed into the private sector: the Labour conference is committed to an annual rise of 3 per cent in its monopoly service's expenditure, regardless of the state of the national economy.

No future Labour Government could be bound by that commitment, of course. Meanwhile, the present Conservative cabinet is displaying in the most uninhibited way its own conflicts over the "Think Tank's" report. But the political options on either side do seem potentially more divergent than they have been for many years.

The travail within the Cabinet derives from a simple and grim piece of arithmetic (arithmetic being a factor wholly negligible to the Labour conference). Unless the whole economy grows at a rate of roughly $2\frac{1}{2}$ per cent (we should be so lucky), public expenditure will take a larger and larger share of gross domestic product, even after all the painful economies of the last three years. Without many fresh sacrifices, the promise to roll back state sector growth, will never be fulfilled.

The same dilemma involves social security, education, law enforcement, defence, and so on. Health spending has historically risen less fast than the first two, and the latter two are officially destined to rise faster than all the rest. The "Think Tank" report is said to make radical proposals in these other fields too. These deserve attention on their own account. But health is a particularly interesting case, because of the drastic changes proposed, and because the NHS is the principal embodiment in Britain of a particular ideal of social provision: the strong tang of ideology constantly attracts the flies of debate.

In addition, this week sees the publication of a notable addition to the debate, a public service contribution from the private sector a study of health provision across the world commissioned by the Nuffield Provincial Hospitals Trust. If pitched battle is joined over the future of the NHS, the study offers a salutary corrective to the prejudices of both sides. Its editors' eventual conclusion that the NHS "constitutes a unique and precious national asset" carries weight.

Not that anybody is proposing its abolition. There is no discredit to the Government in having commissioned a study of the theoretical policy alternatives, with no holds barred. But even the "Think Tank" envisages the survival of two thirds of the free service. All civilized nations, whatever their system of financing health, accept that a large proportion of the population cannot afford to pay for their own treatment. Today half the population are exempted from prescription charges, for instance, and they account for 60 per cent of NHS expenditure. Exemptions from an insurance-based system would have to be at least as wide. They represent a minimum obligation for any community to bear. The "Think Tank" reportedly proposes, perhaps only as an extreme case, a free service virtually confined to this category. The rest of the nation would negotiate for its health care with doctors and insurance agencies.

The arithmetic on which all this is based is not inexorable, but it is too threatening not to be frankly faced. At the outset, there is need for careful clarification of terms and objectives. There is an argument about public and private expenditure, and another about efficiency of service – related, but distinct. Endless muddle results from confusing the two. First of all, there is a presumption, generally well founded, that public expenditure is apt to rise at the expense of the productive investment (mostly private) which creates the growth that pays for all future investment.

The broad objective of restraining public sector growth to keep pace with the growth of the economy is a necessary and urgent one. It does not follow that the shifting of every service from public to private is equally helpful to that objective. Spending on health is not principally an earning activity whether it is in the public or private sector: it is a kind of investment in the national infrastructure, with some opportunity for invisible exports on the side. The case for a major shift into the private sector needs to show not only that it can be done without unacceptable harm to the disadvantaged, but also that it will facilitate the supply of care more effectively for a given cost to the whole economy.

Unfortunately, nobody has ever succeeded in defining wholly waterproof measures of effectiveness in health provision. There are too many outside factors, and too many subjective ones. There is no calculus for offsetting one pain removed here against another pain endured there. Much thought has gone into the defining of objectives in the NHS in recent years, and there have been advances, and consequential savings, though much more remains to be done.

The classic liberal case for transferring as much health care as possible into the private sector is that it enables the forces of the market to determine such priorities. The most significant contribution of the Nuffield study is to demonstrate how limited is the sense in which that is true. You cannot shop around intelligently for a kidney transplant. Insurance distorts the classical market, making the agency, not the patient, the effective customer. Monopoly distorts it even more – not the often-proclaimed "monopoly" of the NHS, which is a fiction till the Labour conference has its way, but the monopoly of skill and knowledge by the health professions used to protect themselves. Almost everywhere, the state is progressively moving into insurance-based systems to act as arbiter and planner.

If the objective of the "Think Tank" is to reduce overall spending on health, its proposals are either irrelevant or misconceived. The evidence from other developed countries is that the level of spending is related less to financial structure than to prosperity: legitimately, societies pay for as much in medical services as they can afford. There is also widespread evidence that with insurance-based systems costs, and particularly administrative costs, are not easier to control but more difficult. For all its defects, the NHS seems to provide a service at least as effective for the price as any other.

This is no consolation to ministers faced with that harsh arithmetic of growth and resources. The NHS is a system well fitted for hard times, and there are hard times to come. While the economy is marking time, subsidy to health must necessarily mark time too. Even if tax incentives could engineer the huge transfer of custom envisaged by the "Think Tank", the prospect of gains outweighing the administrative upheaval is remote. But private medicine does hold out the prospect of gains at the margin for the NHS, in response to demand. Private treatment can bring hospitals worthwhile income which can be applied to the benefit of all patients. The demand exists, and there is much to be gained by taking advantage of it by partnership with the private sector. The closer the partnership, the less the danger of that "two-tier" system which Labour's pay-bed policies did so much to foster in the 1970s.

In an imperfect world, the ideology of the market and that of unrationed free supply are equally unreal, and pursuing them is to pursue mirages.

"For forms of health supply let fools contest:
Whate'er is best administered is best"

Pope's formula begs many questions, but it points the way to empirical debates about ways and means – not easy, but productive – and away from fruitless controversies about a sterile and theoretical opposition.

Economist 9 October

1/24 Annex.

Mountains out of molehills?

The Thatcher government has botched its response to the think-tank report leaked to *The Economist*. It should publish the document as the start of a proper debate on the real dilemmas facing welfare spending in the 1980s.

The think-tank report, which suggested dismantling chunks of the welfare state, hung over the Tory conference like a dark cloud. In the run-up to Brighton, the prime minister's press office attempted what is known in Washington as a "damage-limitation exercise". The official line emerged that when Mrs Thatcher returned from her trip to the Far East she was so appalled by the reports that her government was seriously considering the think-tank's ideas that she immediately issued instructions for the report to be thrown into the rubbish bin. Since this involves a rewrite of recent history, it is worth reconstructing what really happened.

The think-tank report was circulated to ministers along with the rest of the cabinet papers on the evening of September 7th. The gist of its argument was that, on present spending plans and assuming low growth (½% to ¾% a year in gross domestic product), public spending would take 47% of gdp by 1990. That would be 6% above the share inherited by the Thatcher government in 1979.

The think-tank then outlined several options in health, education and social security for cutting the growth on public spending, so that the government could meet the 1979 manifesto pledge to reduce the share of the nation's resources controlled by the state. The most controversial suggestions were replacing the national health service with private health insurance (saving £4 billion a year); ending state financing of higher education except for 300,000 state scholarships; and limiting social security payments, including no longer raising pensions automatically in line with inflation (that could save £3 billion a year).

The think-tank report was circulated with an additional treasury recommendation that it might form the basis of six months' study of strategy on public spending. When Mrs Thatcher and Sir Robert Armstrong, the cabinet secretary, discussed the agenda for the special cabinet of September 9th, they decided to devote the morning to the more pressing problems of public spending for 1983-84 and discuss the think-tank report in the afternoon.

The day before that cabinet meeting, senior civil servants in each department briefed their ministers on what they might say about the paper. One minister said there were 18 civil servants at his briefing. On the eve of September 9th, several cabinet "wets" plotted how to kill the paper at the next day's cabinet.

Mrs Thatcher's first shock came before lunch during the cabinet meeting. She was surprised to discover that the think-tank paper had come with the usual cabinet papers. It should have been distributed separately to ministers only. It was feared that, as a result of its wide distribution within Whitehall, there was a strong chance of a leak. At least four cabinet ministers (all wets) said they did not want a formal cabinet discussion about its contents anyway.

When the cabinet broke for lunch, there was much intrigue. At one stage, Mrs Thatcher was closeted downstairs with treasury ministers, while upstairs the rest of the cabinet sat round the lunch table deciding how to kill the paper. When the cabinet reassembled, Mrs Thatcher was faced with a clear majority in favour of ditching the paper without further ado. Sir Geoffrey Howe and his chief secretary, Mr Leon Brittan, attempted a rearguard action to save the paper they had inspired. They were backed by Lord Cockfield, the trade minister, and Mr John Biffen, the leader of the house. Almost every other cabinet minister registered his disapproval. The prime minister expected the usual wets, such as Mr Jim Prior and Mr Peter Walker, to take fright. But more centrist figures (such as Mr Francis Pym) and respected veterans (like Lord Hailsham) were also opposed to considering it.

Mrs Thatcher argued that the cabinet should not shirk any paper that came before it. She was told by several of her colleagues that the think-tank exercise should have been done by the Tory party's own research department, so that there was less chance of it being branded as a indication of government policy. At this stage, Mr Cecil Parkinson, the party chairman, agreed that that might be the best way to proceed. In the end, an angry Mrs Thatcher bowed to the majority and ended the meeting without there being any discussion of the substance of the document. Next day the newspapers carried Downing Street lobby reports that the cabinet had simply considered public spending.

On September 17th, details of the think-tank paper appeared in *The Economist*. At Brighton, Mrs Thatcher was saying bitterly that it had been passed to us "within hours". In fact it took several days to leak out and was pieced together from a variety of sources.

Tory party managers were afraid that a think-tank controversy might overshadow a party conference which was supposed to celebrate the Falklands victory and the Tories' lead over Labour in the polls. Mrs Thatcher was aware of the troubles brewing at home while she was in Hongkong. On her return, she was told bluntly by Mr Parkinson that drastic steps had to be taken to dissociate the government from the think-tank's thoughts.

On Friday, October 1st, Downing Street briefed Sunday newspaper correspondents on Mrs Thatcher's supposed reaction to the think-tank. She was said to be against its report and had shelved it. Several Sunday and Monday papers carried a story along these lines, though some added their own caveats. In reality, Mrs Thatcher had shelved a report because she had met a cabinet brick wall.

> ## Thatcher's think-tank takes aim at the welfare state
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> The special meeting of Mrs Thatcher's cabinet on September 9th was devoted to a long discussion on the problems of controlling public spending. Far more intriguing, ...
>
> details of its contents.
>
> The paper begins by saying that, on present plans and assuming low annual economic gro... spending will continue ...

The government's response to *The Economist's* original report should have been to publish the document as a basis for debate. There is a genuine quandary on how to finance welfare spending in the stagnant 1980s. In Brighton, Mrs Thatcher said she would not do that because the "think-tank language was too extreme". If so, she needs a more politically astute think-tank. If the report is to be shredded, then the government should mount a fresh exercise. It needs first a paper explaining how public spending will soak up more and more of the nation's resources in a low-growth Britain. A second paper should take a radical, but more comprehensive, look at public spending, embracing industrial as well as social policy. It is, as Mrs Thatcher herself says, absurd that these matters cannot be freely discussed. Why then is she trying to stifle them?

THE GUARDIAN FRIDAY, OCTOBER 8 1982

Tackling the fiscal crisis of the welfare state

Peter Jenkins

THE "Think Tank" affair — more a chapter of accidents than a Thatcherite conspiracy to dismantle the Welfare State — has had the useful consequence of opening up a debate about the future of the public sector. At the same time it has opened the Government to a new line of attack from the "wets" whose buzz word this week has been "compassion." It has also illustrated the Prime Minister's remarkable capacity to be as resolute in retreat as she is in advance.

What happened was this. The Treasury about a year ago came to the conclusion that the dismal international outlook boded ill for domestic economic growth in the eighties. It made an internal analysis based on two rough and ready assumptions: the first (optimistic) took a growth rate around the average for the late sixties and early seventies; the second (pessimistic) projected the recent poor performance of the economy.

On the first assumption there would be a tricky problem in financing public expenditure; on the second the problem became horrendous. According to the leak in the Economist, public expenditure — on the worst assumption — could rise from 45 per cent of GDP to 60 per cent by the end of the decade.

The Treasury's assessment was passed to the "Think Tank" for comment. One of the functions of the "Think Tank" is to point up the wider policy implications of possible lines of action. What it pointed up in this case was that there was no way of balancing the books without radical policy change. In practice that meant radical change within the big four spending areas — health, social security, education and defence.

The "Think Tank's" thinking of the unthinkable was leaked by an outraged "wet." The Prime Minister returned from the Far East to find she had an embarrassing row on her hands. She went swiftly into retreat and repudiated the "Think Tank" paper.

The Treasury's analysis remains on the table, and the problem it exposes remains to be tackled by whoever forms the next government. One effect of the attention focused on the "Think Tank's" ruminations has been to obscure the Government's concern about defence expenditure which is at least as great as its worry about financing the NHS. Ministers are being taken to the cleaners by the Joint Chiefs of Staff who are taking ruthless advantage of the "Falklands Factor."

They have put in a huge bill — both for capturing and for the future defence of the Falklands — which they want settled over and above the defence budget. In addition they are demanding the indexation of the standard defence budget on the most generous terms plus the right to carry forward the huge sums which each year they are unable to spend.

The slogan of this Conservative Party conference is "The Resolute Approach." It is going to be intriguing to see how resolute the Prime Minister will be against the overweening military.

There are three courses this government, or any government, can take in trying to tackle what is becoming a fiscal crisis of the Welfare State. It can try to find the elixir of faster growth, in time to pay the bills. It can make radical alterations to the edifice of the post-war Welfare State. Or it can simply do the best it can in difficult circumstances, which would mean a good deal of privatisation and charging while the total of public expenditure as a proportion of GDP rose nevertheless.

This last approach was presumably what Mr James Prior had in mind yesterday when he joined in the argument and said: "We should not be too surprised or panic-stricken if, in the depths of recession, high unemployment pushes up the cost of a compassionate social policy."

The Prime Minister and the Treasury are unlikely to take so relaxed a view of the matter; nevertheless, ministers are already conceding that piecemeal measures—the privatisation of hospital cleaning, increase in health and educational charges for those who can afford to pay, and so on—are not going to take the measure of the problem if it presents itself on the scale envisaged on the Treasury's more gloomy assumption.

Even on that basis the arguments will be fierce. The "Think Tank" leak has given Mr Edward Heath, Sir Ian Gilmour and other dissidents the chance to accuse the Thatcher government of neglecting its social responsibilities, thereby departing from the true Tory tradition.

The accusation has some sting because the party managers know well from the opinion polls that a reputation for unconcern is the Prime Minister's weakest suit. Resolute she may be, and bold too, but does her Government have to be quite so bloody? Beyond the electoral considerations, and the moral considerations too, it is pledged within two terms of office to push back the frontiers of the state.

But those frontiers are defended by determined forces of vested interest, the public employees whose power and patronage has grown so in the last decade or so. They have in large part succeeded in hitching the Labour Party and trade union movement to their sectional cause.

The public v. private issue, which this Conservative Party conference has brought to the fore, is one which cuts across the lines of class and traditional allegiance to pare the public sector. It looks as if it will be the chief battleground of British politics in the years to come.

SINKING THE UNTHINKABLE

AT BRIGHTON

OBSERVER

Sunday 10th October 1982

Beneath the placid surface of last week's Tory conference, a genuine doctrinal battle was being fought out over the future of the Welfare State. ADAM RAPHAEL and SIMON HOGGART assess the significance of a debate that began with a defeat for Mrs Thatcher in the Cabinet room at No. 10 last month.

THE CONSERVATIVE Conference chairman, Donald Walters, remarked plaintively at lunch one day: 'We try to get people to dissent, but nobody seems to want to.' The fact is that all Tory conferences are ruthlessly stage-managed. Motions are specially selected so that virtually every single delegate can agree with the wording. Speakers have to apply on a printed slip for their place at the lectern, so that they can be vetted by the platform first. As an official from the Soviet Embassy remarked with a smile in the tearoom last week, 'This is just how we organise *our* conferences.'

Beneath this glossy surface, however, the chasm which exists between the two different wings of the Tory Party gaped wider than ever. This time the wets believed that they were defending the whole concept of their Tory 'One Nation.' Mrs Thatcher tried to douse fears of a threat to the National Health Service in her conference speech, but by then the damage was done. The noise of battle over the future of the Welfare State echoed all round Brighton.

Mrs Thatcher can take some of the blame for this herself. She was warned by one of her closest allies: 'If we have got to think the unthinkable, for goodness' sake let us do it in private.'

In the interval between the anodyne debates in the conference hall itself, a parade of Tory wets, speaking in pubs and the private rooms of expensive hotels, launched their counter-attack on Thatcherism. They included Cabinet members such as Peter Walker and Jim Prior and members of the Government-in-exile, such as Ted Heath and Sir Ian Gilmour.

One Minister spoke privately of a 'monumental cock-up'; another talked bitterly about 'a botched attempt to dismantle the Welfare State.' Considering that the row is now likely to haunt the Tory Party right up to the next general election, it began quietly and innocently enough.

The Chancellor, Sir Geoffrey Howe, backed by the Prime Minister, decided that the Cabinet ought to have a wide-ranging discussion about the implications of accelerating growth in public expenditure, in an economy which was not expected to expand by more than 5 per cent over the next decade. The consequences would not seem just unpleasant—they would be disastrous. If nothing was done, according to a paper the Chancellor presented to the Cabinet on 9 September, the basic rate of tax would have to rise by half from 30p to 45p, and VAT would have to go up to 25 per cent.

Sir Geoffrey himself began the debate on the future of the Welfare State during the summer when he made a heavily coded speech in Cambridge. In it he set out the priorities for a future Conservative Government, and suggested that radical options would have to be examined if the Tories were to make good the pledge in their 1979 manifesto to reduce the share of the nation's income taken by public spending.

But it was not until Ministers received their Cabinet papers on 7 September, two days before the crucial meeting, that most of them realised that the Chancellor was now determined to force a swift examination of truly radical cuts in public spending.

In their official red boxes that evening, Ministers found three papers, one from the Chancellor, one from the Central Policy Review Staff, commonly called the Think Tank, and one from the Treasury on current public expenditure trends. All three made distinctly unpleasant reading. Sir Geoffrey's paper reinforced his threats of sharp tax increases by warning that public spending was set to grow to 47 per cent of Britain's gross domestic product by the end of the decade, much higher than when the Tories came into office. The consequences, he warned, were 'unacceptable and crippling disincentives to individuals and industry.'

The Chancellor's gloomy paper was complemented by the one written by the Think Tank. This set out a series of options for radical cuts in the Welfare State. Among its most controversial recommendations—which would save a total of £10 billion—were the introduction of compulsory private health insurance to replace the National Health Service, ending virtually all state funding of higher education, and going back on the Tory commitment to increase Social Security payments, including pensions, in line with inflation.

'I couldn't believe my eyes when this absurd paper came round,' said one Minister, a well-known wet. Another claimed he hadn't even bothered to read it, as it was so obviously 'a waste of time and energy.' Other Ministers, however, were carefully briefed by their officials on the options which the Think Tank had outlined.

The wets deny that they plotted together in advance of the 9 September Cabinet, but when the Prime Minister called the meeting to order that morning they were clearly fully prepared.

As soon as the Prime Minister read out the proposed agenda, suggesting that the Cabinet should spend the morning discussing the Chancellor's paper and devote the afternoon to the Think Tank, there were immediate protests. The wets, led by Peter Walker, the Agriculture Minister, said that the Think Tank's proposals were presented in far too vague and dangerous a form for the Cabinet to discuss. Others warned that the paper had had wide distribution throughout Whitehall. This was because the paper had been marked 'confidential,' a lower classification than 'secret' and much lower than 'top secret.' When Mrs Thatcher heard this, she was furious and demanded an explanation from the Cabinet Secretary, Sir Robert Armstrong.

As the morning passed, the Prime Minister's humour was not lightened by several of her

Minist[illegible] saying that they thought the Chancellor's own paper was unduly pessimistic and lacked any vision. At one point she exploded when Michael Heseltine, who has been pleading the case for more expansion, said drily that he wished for once that the Treasury would address its tiny collective mind to the question of promoting growth rather than always bewailing the lack of growth.

When the Cabinet broke up for lunch, the Prime Minister and Chancellor could clearly see that they faced a tricky afternoon. According to one version, after a fairly tense lunch, the Cabinet broke into two [illegible], with Mrs Thatcher, Sir Geoffrey Howe and Leon Brittan retiring downstairs to concert their tactics against the wets. But when the Ministers reassembled round the Cabinet table, it was quickly evident that the Prime Minister and the Chancellor had once again lost the support of a majority of their colleagues. It was not just the wets, but also the 'greys' and even some of the drys who indicated they thought it both futile and dangerous to proceed with a discussion of the Think Tank report.

The Health Secretary, Norman Fowler, said that the Think Tank proposals on the NHS were neither helpful nor relevant when the Government had already committed itself against alternative systems of financing.

Mrs Thatcher argued just as strongly that the issues were too important to be shelved and that the Cabinet had to face the facts on public expenditure, however difficult and unpleasant they might be. But the sense of the Cabinet had been caught by the wets, whose leader, Peter Walker, argued that while it was right for the issues to be debated, it should not be on the basis of an obviously flimsy, inadequate and ill-prepared paper. The correct place to start such a sensitive examination was in the party's research department. Lord Hailsham, who has been known to leave Cabinet meetings singing 'Oh God our help in ages past,' was heard to mutter instead that the paper had been the most damaging single episode of the past three years.

The argument — the first important wet victory for more than a year — was carefully omitted from the Cabinet minutes. But Mrs Thatcher's fears that details of the Think Tank report would soon leak out were confirmed eight days later when the *Economist* published a detailed account.

By then the Prime Minister was in the Far East, but she read with mounting anger reports cabled to her of the bitter political controversy caused by the leak. On her return, she summoned a crisis meeting and was advised by her party chairman, Cecil Parkinson, to cut her losses and disown the Think Tank report as 'politically inept.' This delicate operation, which inevitably involved a certain amount of glossing over what had actually happened, went wrong. Too many people knew what had been said and too many people were outraged by what they saw as a flagrant attempt to rewrite history.

So, when the party conference opened in Brighton last week, the wets were in no mood for submission. They know they cannot afford a full-scale Cabinet conflict so close to an election. On the other hand, they are not prepared to go into the election with a manifesto committed to dismantling the Welfare State at a time of massive unemployment. As Jim Prior told the Tory Reform Group: 'We shall not deal with these daunting problems by adopting the over-simplifications of those who like to call themselves nineteenth-century liberals . . . for us to take up nineteenth-century liberalism would have about as much appeal to the voters and as little sense as taking up Marxism has for the Labour Party.'

The wets can publicly protest, but their position is not strong. Mrs Thatcher has entrusted the vital job of co-ordinating the manifesto to Sir Geoffrey Howe, who together with Cecil Parkinson is in charge of the party's policy groups. With the Falklands factor still helping her, and with her party 12 points ahead in the polls, Mrs Thatcher still holds almost all the levers of Tory power.

But the issues raised by the row over the Think Tank report will not just die away. Mrs Thatcher has now been placed in a position where she has been publicly forced to admit that her Government cannot keep its pledge at the last election: to sustain the Welfare State while cutting tax at all levels of income. In the run-up to the election, Ministers are certain to have a difficult job facing questioners who will want to know which bits of the Welfare State are to be dismantled in order to prevent taxes increasing. As the Chancellor himself admits, the dilemma of accelerating public expenditure in a no-growth economy will not go away. Neither will the argument, which now seems set to dog the Tory Party throughout this crucial pre-election year.

The Tories may try to keep the wraps on this debate. But even if the unthinkable has now become the unspeakable, the voters will want to know precisely what the Government intends to do.

12 OCTOBER 1982

12 THE GUARDIAN

Slicing a cake full of fallacies

"The intention must be," Sir Geoffrey Howe told Weekend World this Sunday, "to secure a reduction in the percentage of gross domestic product (national income) being taken by public expenditure. It is now at 45-46 per cent, depending on how you measure it." A certain logic follows from the Chancellor's commitment. Either the share of public spending in national income can be cut by increasing national income, or it might be cut by reducing spending. The first course he effectively ruled out by promising years of low growth. The second is difficult. Sir Geoffrey inherited an economy where public spending took only 41 per cent of national income, and his recession has succeeded in creating enough unemployment to drive that share up. For the future, he murmured gently about the hopes of improving the efficiency of the public sector, but the truth is that such savings would amount to relatively little. Sotto voce, Sir Geoffrey was once again confirming that the Cabinet's dries may have "shelved" the Think Tank's proposals for education and the health service but they have not yet disavowed them.

More's the pity, then, that this report, evidently regarded by Mrs Thatcher and her Treasury ministers with intense seriousness, should not be regarded as serious enough to merit publication. Not serious enough even to be released for the examination of the Treasury committee of the House of Commons. Not yet serious enough to withstand the sort of scrutiny which our fiscal experts would like to give it.

It is highly contentious to suggest, for example, that the continuation of current policies and low rates of growth might lead to an expansion of the share of public spending to 60 per cent of national income, with consequent increases in income tax rates. Constant tax rates should be enough to fund a constant real level of public services, unless the number of recipients of pensions or supplementary benefit increases. The former is in fact unlikely, on present demographic trends. The latter will only occur if the economy is run for the foreseeable future at such a low pressure of demand and output that unemployment continues to grow. It then becomes not a public spending problem, but a problem of misguided government policies. If the economy does grow fast enough to reduce unemployment, then it is true that public spending may still rise as a proportion of national income. But that is the political result, observable in every developed economy for three decades, of the fact that the demand for public services increases disproportionately with rising income. It is a consequence of prosperity, not an obstacle to it.

From its analysis of a non-problem, the Think Tank glides effortlessly to counter-productive solutions. Most of its ideas would in fact entail the same or worse services taking a larger share of the national cake. Take, for example, health care. A brutal free market in health care would certainly reduce spending, but it would also leave poor people without care and has therefore been ruled out. "Privatisation" means instead a compulsory insurance scheme. But why does it make any difference, if the service remains the same, whether it is funded from tax or from compulsory insurance? In practice, the burden on the individual would increase. The costs of collection of premiums would be greater than the costs of collecting tax which has to be collected anyway. The Government's control over health costs would vanish, to be replaced by a system where doctors effectively decide the level of service and where consumers, their payments spread in thousands of premiums, are powerless to resist a steady increase in charges.

The same argument does not apply to private funding of higher education. The cost per student of perhaps £12,000 for a three year course would simply prohibit able working class students from going to university, for fear that the indefinitely rising unemployment which the Think Tank seems to posit would deprive them of an opportunity to repay the loans. "Education vouchers" for secondary schools, however, would certainly increase public expenditure. They would be a direct subsidy to those parents currently paying school fees and presumably they would also require the expansion of popular state schools if any meaning was to be given to Sir Keith Joseph's promise of greater consumer choice. Nor would standards necessarily improve. More middle class parents would vote with their children's feet for the private system, leaving many state schools deprived of resources or pressures for improvement. Like compulsory health insurance, "education vouchers" would be a way of spending more money on worse services. Can that really be the apotheosis of Sir Geoffrey's vision?

ANNEX 2

The CPRS

1. The Central Policy Review Staff (CPRS) was founded in February 1971 as an advisory and analytical unit within the Cabinet Office, serving the Cabinet and the Prime Minister. Its primary functions are to provide collective briefing for the Cabinet and its Committees; to prepare longer term studies and reports; and to monitor the Government's central strategy.

2. The CPRS currently comprises 14 advisers and 6 senior staff (including the Head of the CPRS, Mr John Sparrow and the Cabinet Office Chief Scientist) and 17 support staff. All advisers and senior staff are on secondment, mostly for about 2 years: there are no permanent appointments. About half come from outside central government (e.g. industry, local government).

3. It is not normal practice to reveal details of the CPRS' activities. Most of its work takes the form of confidential advice to Ministers. Some of its reports are published, however, and some of its activities are public knowledge.

4. Since its inception in 1971 the CPRS has published 13 reports, none between 1971 and 1973, 10 between 1974 and 1978, and 3 since 1979. This reflects changes over time in the balance of work as between reports for publications and confidential advice to Ministers. The latter is now the principal activity.

ECONOMIC POLICY.

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Whitehall London SW1A 2AZ
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Gerry Spence Esq
Cabinet Office
Central Policy Review Staff
70 Whitehall
London SW1A 2AS

14 October 1982

Dear Gerry

Thank you for the briefing which you provided yesterday for the Lord Privy Seal in connection with Lord Wells-Pestell's Question about the CPRS report on long-term public expenditure. The Lord Privy Seal found it very useful. Many of the supplementary questions were on DHSS matters and the briefing was very good.

The Lord Privy Seal is also most grateful to Mr Bailey and Miss MacKay for their help at the lunch time oral briefing. For this she is also indebted to Mr Mountfield (HM Treasury).

Copies of this letter go to Willie Rickett (No 10), David Clark (DHSS), Imogen Wilde (DES), John Gieve (Chief Secretary's Office), Richard Mottram (Defence), and Richard Hatfield (Cabinet Office).

Yours sincerely

Douglas Board

D R H BOARD
Assistant Private Secretary

WR 11/10

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 06080

11 October 1982

David Clark Esq
Principal Private Secretary to the
Secretary of State for Social Services
Alexander Fleming House
S E 1

Dear David,

Parliamentary Question

The CPRS has been asked to take the lead in handling the following PQ which has been tabled for oral answer in the House of Lords on Thursday, 14 October:

> "Lord Wells-Pestell
>
> To ask HMG whether they will publish the recent report of the CPRS on the future of the welfare state."

The question refers of course to the CPRS paper on public expenditure options whose contents were widely leaked to the press.

The suggested answer will found on the established principle that CPRS advice to the Government is confidential and is not customarily published. However, we shall need to provide supplementary briefing on the main points of substance which have featured in the public debate about the 'report'. Two of these, notably the future of the NHS and the indexation of benefits, fall within your Department's responsibility and I should be grateful if you could supply us with contributions to notes for supplementaries and background notes.

I should be grateful if Imogen Wilde (to whom this letter is copied) could provide similar contributions covering the financing of higher education.

Contributions (which should be copied to the Treasury) should be sent to Eileen Mackay (233 6094) to reach here by midday on Tuesday, 12 October.

Copies of this letter also go, for information, to Willie Rickett (No 10), Richard Mottram (Defence), John Gieve (Chief Secretary's Office), and Richard Hatfield (Cabinet Office).

Yours ever

Gerry Spence

G B Spence