

file with W.T.
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Treasury Chambers, Parliament Street, SW1P 3AG

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Prime Minister

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PRIME MINISTER

You will want to discuss this with the Chancellor. I have asked Bernard Ingham for his comments.

PUBLIC EXPENDITURE: PUBLIC DEBATE ON THE LONGER TERM

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In his minute of 29 July, Peter Rees said that I would be sending you some further suggestions on the question you took away from Cabinet on 21 July - how to stimulate public discussion of the longer-term prospects for public expenditure and taxation.

2. The problem on which we want to focus public attention can be stated quite simply. Because we have not yet succeeded in reversing the rising trend of public expenditure (it has grown by 5 per cent in real terms over the last four years), the burden of taxation is already too high (at 40 per cent of GDP) - much higher than any of our main industrial competitors except France. Because of demographic pressures and other commitments, public expenditure is likely to go on rising, on existing policies - the LTPE projections done last year suggest an increase of more than 10 per cent in real terms by the end of the decade. We are thus faced with a vicious circle, of high taxation leading to inadequate incentives, poor industrial performance, low growth, and the inability to finance existing public expenditure plans without still higher taxation. We must break out of this circle by planning for lower expenditure so that we can bring down taxation and reinforce the progress we have made towards a higher rate of sustainable non-inflationary growth, on which all our longer-term economic aspirations depend. It is the old story of needing to earn the wealth before we can plan to spend it. We have made a start by planning to keep the expenditure total broadly constant in cost terms for the Survey years. But this needs to be supported by well-informed

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public debate, to make it easier to secure acceptance of the necessary decisions. This debate will also need to cover longer-term prospects beyond the Survey timescale. We must get it understood that there is a serious risk of a rising burden of spending and taxes on any plausible view of growth over the medium term; and press home the argument that the high growth some may seek or predict as a way of ducking the issue will not occur unless we first succeed in reducing the burden of spending, taxes and borrowing. A number of the more responsible commentators have been urging the need for a public debate, and there are already some small signs of greater public realism.

3. Our objective, as I see it, is to change the context of the debate so that press and political commentators do not find it so easy to confine themselves to the case for spending more, but are forced to acknowledge the trade-off between expenditure and tax, the continuing growth in the tax burden and the need to find ways of reducing it. In doing this we must clearly avoid controversial discussion on policy options leading to leaks of the kind which happened last year; our aim is to make press and public face up to the problem, and we do not need to argue for any specific solutions at this stage - we can allow these to emerge from the debate.

4. There are a number of ways open to us to encourage debate:

- i. Press Some newspaper and TV journalists and commentators are already aware of the problem, and we should look for ways of steering their interest in a helpful direction. After the holidays there are likely to be rumours about the progress of the Survey bilaterals, and these should be put in the right context by background briefings.
- ii. Government statements Speeches by Ministers and other published material can be useful both in their own right and as a peg for press briefing. Your television interviews at



the end of last month were a valuable start. You may want to take other opportunities, and I should be glad to provide further material. I and other Treasury Ministers will press home the central message in speeches and elsewhere. The broad debate has to be conducted from the centre because the argument turns on the overall burden of taxation and the need to reduce it, and on the dangers of spending more than the economy can afford. But at the same time there needs to be discussion of specific expenditure programmes. The main spending Ministers - Norman Fowler, Michael Heseltine, Patrick Jenkin and others - will need to bring out the growing burdens implied by demography, technology and existing commitments.

- iii. Select Committee When the Treasury and Civil Service Committee is reappointed, the Chairman might be informally persuaded to get it to undertake a wide-ranging study in this area, commissioning work from outside "experts" as advisers. It would also want to take evidence from the Treasury, and we might offer an introductory paper in order to set guidelines for the debate. There are some risks in this course, as we saw with its last major study of the international monetary system - we cannot control its conclusions, and it may ask for more information than we want to provide (for example, it might insist on seeing and publishing last year's widely-reported LTPE projections). But this is an obvious area for it to tackle, whether we encourage it or not, and given our objective of getting an informed public debate, I think we should do better to co-operate with it from the outset.
- iv. Academic Studies In the longer term, it may be desirable to encourage academic and research institutions to sponsor studies. These might cover broadly the same ground as last year's LTPE projections of expenditure programmes and taxation, but would

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no doubt extend more widely into "solutions". There is already a good deal of material publicly available, and we could offer some informal help to academic researchers. Some institutions (PSI, NIESR) are already interested. The results are not, however, likely to be available until the second half of this Parliament, and we shall need to have taken some of our main decisions well before then.

5. We want to be ready to take early opportunities to promote the debate along helpful lines, and I would be pleased to discuss this subject with you after the summer break. If you are content with the broad approach suggested, I will let you have further advice on what might be said to Cabinet when we have explored the possibilities a bit further.

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12 August 1983

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FILE SH
bcc: Mr. Schuler
Mr. Ingham

10 DOWNING STREET

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From the Private Secretary

26 August, 1983

Public Expenditure: Public Debate on the
Longer Term

The Prime Minister has seen the Chancellor's minute of 12 August. She would like to discuss this with the Chancellor, and we will be in touch to fix an early meeting. The Prime Minister would be grateful to have the Chancellor's further advice on what might be said to Cabinet on this subject, and it would be useful if this could reach her before the meeting.

W. F. S. RICKETT

Miss Margaret O'Mara,
H.M. Treasury

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