

CONFIDENTIAL

Qa 05235

To: Mr Lankester

From: J R Ibbs

Public Expenditure

1. Following today's lunch in the Treasury I explored further with Sir Anthony Rawlinson and Mr Littler the arguments for replacing 'volume' by 'cash' as the basis to be used in all years in the public expenditure survey.
2. The only serious objection raised is the difficulty of making a reliable estimate of future inflation when setting the annual totals; because of this it is thought that the figures for the later years are likely to be regarded as meaningless. But uncertainty is a practical reality; volume figures which it may be impossible in the event to afford and which encourage unreal expectations and undesirably high expenditure seem to me more objectionable. There is no doubt that insofar as the trading analogy is valid, 'cash' which relates to what you expect to be able to afford rather than what you want is the idea spenders have to grasp.
3. I was assured that the arguments for and against adopting cash figures as the basis for the survey will be fully set out in a submission to be prepared for the Chancellor which he should receive within about a week.
4. I also discussed what could be done to recapture some or all of those economies achieved in 1980/81 which have been lost through the way the 1981/82 cash limits were arrived at - a source of 'loss' which the Treasury are already taking steps to avoid in future.

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Ami M...
I think an agreed but
a further source, as
suggested below, is not on.

But I am told that
the Chancellor is still
considering coming back to
the matter.

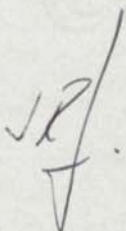
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5. It appears that although it would be untidy (e.g. the printing of estimates would be late), there is no reason administratively why the ground could not largely be regained by, for example, an average two or three per cent cut in cash limited expenditure for 1981/82. I am told that it is too late to impose this on local authorities' expenditure but that it would be possible on virtually everything else. The argument in presenting such a move could be that on an up-to-date assessment 'this is all we can afford'. This, of course, is what has to happen in the private sector in stringent circumstances.

6. I do not at present know the strength of the arguments for and against such a move in the context of the overall economic situation, nor whether it would be politically acceptable. But except for the local authority expenditure there appears to be no administrative barrier to it.

7. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'SR', with a vertical line extending downwards from the bottom of the signature.

28 January 1981