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Public Nov 20/81
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MR. WHITMORE

You should see the attached paper which is for discussion later this week with Francis Pym. It represents the views of my colleagues, Messrs. Gaffin, Vereker and Ms. Drummond, and Heads of Information in Treasury, DoE, DHSS, D/Employment, D/Energy and D/Industry.

B. INGHAM
10 November, 1981

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PUBLIC EXPENDITURE - PRESENTATION

This paper sets out, for purposes of discussion by the Lord President with members of the MIO Economic Group, the presentational problems arising over the period to the Christmas Recess, primarily from the annual public expenditure review, and how the end of November package of economic announcements should be harnessed to restore confidence in the strategy.

BACKGROUND

The Government is widely seen to be split over priorities - i.e. whether the top priority should be the containment of inflation or whether there should be a somewhat looser approach to the Medium Term Financial Strategy (MTFS) with the objective, if possible, of easing unemployment - if necessary, at the expense of the control of inflation. This clash is conveniently (but superficially) presented by the media as the familiar struggle between "wets" and "drys". The public's perception is nonetheless reasonably accurate - not surprisingly since Ministers have assiduously fed the media with blow-by-blow accounts of the public expenditure debate.

In practice, the argument is much more complex. The Cabinet is not disposed to abandon the MTFS, difficult though it may be to adhere strictly to it. It recognises that there is limited room for manoeuvre. In an ideal world it would like to reduce unemployment and continue to bring down inflation. But since the world is not ideal, there is a painful conflict between heart and brain. This is all the more painful because it is recognised that the reflation required substantially to lower unemployment exceeds all reasonable prospect and would, if undertaken, give a powerful new boost to inflation.

Unfortunately, heart has ruled the brain again this year and the public has not merely been given a yardstick by which the

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success or failure of the wets and drys will be measured (an MTFS overshoot of £7 billion); it has been conditioned to expect dastardly cuts in services of one kind or another - e.g. education, social security - regardless of the fact that the Government will be spending at least £3.5 billion more than it planned under MTFS.

In short, the Government has got itself into the worst of all possible worlds:

- it is in public conflict within itself;
- while it is most certainly going to spend a lot more than it planned, it is publicly perceived to be slashing expenditure yet again;
- when all is settled, its expenditure will be seen to be way over target and so doubt will be cast upon the integrity of its strategy, with possible consequentials for the exchange and interest rates; and
- unless there is a fundamental break with the past, one faction or the other will claim a victory and perpetuate the split.

This is no way to run a railway.

In such circumstances (which are regrettably familiar to Chief Information Officers), an inordinate load is placed on presentation. Where do we go from here?

OUTLOOK

There is little prospect that the Government will take greater care of itself. The rot of competitive leaking has gone

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too far this time round. It has therefore to be recognised at the outset that whatever Information Officers do - and however brilliantly they do it - they are rowing against a tide which, unless controlled, could destroy the Government.

In short, if the Government itself won't look after its own interests, there is not a lot the Government Information Service can do to help it.

DOING-OUR BEST

Having said that, we now need to consider how best the Government can bring together the strands of the public expenditure review and most positively and convincingly present it to the country to the common good. There are a number of elements:

- the overall figures, with the public now partially conditioned to expect an additional expenditure of at least £3.5 billion (£113.5 billion) over and above the figure implied by the MTF5 but knowing that savings of £3.5 billion have to be found if the £7 billion overrun of bids is to be eliminated;
- the Departmental consequences - and especially those (e.g. social security, educational grants, local authority RSG) which directly affect the individual's pocket; this includes nationalised industry EFLs and RSG;
- the fiscal consequences, taking account of the trend of revenue;
- reconciliation of the outcome with forecasts - e.g. Industry Act, Government Actuary - of unemployment, inflation and pay increases;
- the powerful influence, for good or ill, of pay bargaining in both the public and private sectors.

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In the perfect world, the Government would take due time in secret to resolve all these issues and then present them in a single announcement, backed up by individual Departmental exposition of how they fit into the composite whole.

Given that the world is imperfect - and knowing that the Cabinet's discussions will be retailed to the media - there is still a powerful case for bringing the maximum number of decisions together in one statement as soon as possible after those decisions have been taken.

It seems unlikely that any such statement could include the RSG decision. That is a pity because it would be better to get as much as possible out of the way at once. But on that principle we ought to try to bring together the overall decisions on public expenditure, backed up by Departmental expositions, with the Industry Act and Government Actuary reports in one single statement to Parliament which emphasises the crucial nature of pay bargaining NOT primarily to the Government but to the livelihoods of those directly concerned and the unemployed.

Our overall purpose should be to present a coherent picture of the Government's economic policy, and especially its approach to public expenditure in 1982-83 and beyond, explaining:

- what the prospects are and why there are grounds for confidence;
- how the public expenditure decisions will affect particular sections of the community;
- how we are prudently adapting our strategy to difficult circumstances without throwing it overboard;
- how this adaptation is possible and how it can be reconciled with the Government's overall objectives of containing inflation and providing secure jobs based on a competitive economy;

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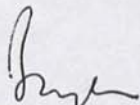
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- the choices that have been faced and why they have been selected or rejected; and
- the crucial nature of the pay element to the country's performance and prospects (with an explanation of how the earnings increase forecast of 7.5% is compatible with a 4% pay factor).

CONCLUSION

Such an approach would give the Government the best chance of coming out of a bad (and eroding) situation with most credit. It would require Ministers to gear themselves and their Departments up well in advance of final decisions. It also implies a common will and purpose to act as a determined Government.



B. INGHAM

9 November, 1981

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