

THE GHOST OF PAR? PUBLIC EXPENDITURE PLANNING BEYOND PLOWDEN

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ABSTRACT

The Ghost of PAR? Public Expenditure Planning Beyond Plowden

The current control system for public expenditure in the UK dates from the Plowden Report in 1961 and was developed for a public utilities model. This paper presents detailed evidence on changes in the composition of public expenditure. A new control system is proposed that is better suited to new patterns of public expenditure, in which social investment and transfer payments have become much more important. Information on expenditure could be presented in a new fashion, broken down according to client groups and covering the whole span of public initiative, including tax expenditures and regulation as well as public expenditure. It would also be possible to relate future public expenditure commitments to projections of income and economic activity on a cohort basis.

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NON-TECHNICAL SUMMARY

The aims and instruments of economic policy have changed a great deal since the early 1960s, but the management of public expenditure still takes place within the PESC framework set out by the Plowden Report in 1961. Longer-term analysis of public expenditure has been confined to aggregates and there has been little attention to important changes in the composition of public expenditure. The Plowden control system related to a public utilities model of public expenditure, in which control of capital expenditure was a major objective. But capital spending has fallen from 23.2% of total public expenditure in 1961 to 9.0% in 1986 (on Blue Book definitions). Public sector capital expenditure was 19.9% of total capital expenditure in 1986, compared to 39.2% in 1961. In contrast, over the same period social security expenditure has risen from 17.7% of total public expenditure in 1961 to 35.2% in 1986; 35% of households are now wholly dependent on public sector transfer payments, compared to 25% in 1961. Thus the economic role of public expenditure (in terms of its effects on the allocation of resources, growth rates and capital formation) has been reduced, while its social effects on living standards and on the opportunities of households have increased, through the growing importance of income support expenditure.

The paper reviews various proposals for change in UK public expenditure control that have been made since Plowden. These include PAR (Programme Analysis and Review), the introduction of cash limits and cash planning, the Green Paper on medium-term prospects for public expenditure, and the Financial Management Initiative. Some of these changes (such as PAR) aimed to promote a redefinition of the aims and outputs of public expenditure, but these were abandoned: the public expenditure control system has become even more directed towards issues of short-term efficiency and financial control. The innovations concerned with financial efficiency have had much more impact than those concerned with effectiveness.

The paper sets out ways in which the planning of public expenditure could be better directed to the medium-term problems of its effectiveness in society, rather than to the short-term problems of financial control. A new framework is proposed that focuses on the three groups most affected by decisions on public expenditure: the elderly, families with children, and the unemployed.

Expenditure directed at these three client groups has increased rapidly as a proportion of public expenditure in the 1980s, accounting for 53.4% of public expenditure in 1987-8. Defence and external relations make up the only other linked sets of budgets of comparable size, accounting for 14.5% of the total; the remaining 28% is divided among many small programmes. It is the client group budgets which have grown most rapidly in the 1980s, from 42% of total spending in 1981-2 to 53% in 1987-9. Excluding defence and the client group budgets, other public expenditure has risen in the 1980s only from £32 bn to £41 bn.

Just as in 1961, the major need in medium-term planning was in the control of capital expenditure, so now a more integrated medium-term approach is required that focuses on income support. The planning of public expenditure, broken down so as to highlight spending on these client group budgets, is crucial to any improvement in public expenditure choices for the future, and would go some way towards ensuring that the social investment aspects of public expenditure get adequate attention. There are three specific ways (using already available data) in which the programme budget approach could be used to improve public expenditure planning in the medium term.

First, regular information about public expenditure could be presented in the public expenditure White Paper, or in its successor documents, on a client group basis for the three key groups of the elderly, families with children, and the unemployed. The client group presentation would give a clearer focus on those areas of public spending — mostly not covered by cash limits — where public expenditure has grown most rapidly.

Second, information on government expenditure on these client groups should include tax expenditures (which for pensions now amount to £9 bn) and regulation as well as direct public expenditure. This would assist in more effective choice of alternatives. The focus would thus be on 'public initiative' rather than just on public expenditure. The relative importance of tax expenditures has grown in recent years, yet the progress made towards a more integrated analysis of tax expenditures and public expenditure made in the late 1970s had not been maintained. Government control over public expenditure is thus being eroded by changes in its composition.

Third, changes affecting particular demographic cohorts could be assessed in a sufficiently long-term perspective for there still to be time to affect choices for the future. Thus there is little that can be done to reduce poverty in old age among those who are already elderly, but it should be possible to change policies in ways that would reduce the incidence of poverty in retirement among people who are currently in middle age. The closer examination of the economic and social prospects of particular age-groups would highlight the full impact of government policies, and would lead to more informed discussions of policy priorities.

These three types of analysis are set out in detail in the paper. The needs of each of the three major client groups are examined, and policy guidelines are proposed which seek to apply the insights provided by the new framework. These changes would go some way towards increasing the attention given to the social investment aspect of public expenditure, now that public expenditure is concerned increasingly with income support rather than with capital expenditure. Just as in 1961 medium-term planning was needed for capital expenditure, so now a more integrated medium-term approach is required for the new core programmes in public expenditure.

The Ghost of PAR? Public Expenditure Planning Beyond Plowden

The aims and instruments of economic policy have obviously changed a great deal since the early 1960's. Little is heard now of the indicative plan, the growth target and the Godley/Shepherd technique of measuring capacity utilization. But in one area of policy there has been much greater continuity. The management of public expenditure still takes place within the PESC framework set by the Plowden Report published in 1961. (HM Treasury 1961). The same approach is used even though the composition of public spending has changed fundamentally. This paper assesses how these changes have taken place and then draws out implications for the public expenditure control system, in a period when the role of the public sector has become much more 'social' than 'economic'.

Public Expenditure in 1961 and in 1986

Information on long term trends in public expenditure has recently become much more available. The Treasury's Green Paper on the medium term outlook for public expenditure contained some useful figures and a recent article by Treasury officials in Economic Trends added to them (H.M. Treasury 1984 and Economic Trends 1987). The newly expanded first volume of the White Paper on Public Expenditure in January 1988 contained a long special chapter on historical trends (H.M. Treasury 1988). The Treasury under its current Chancellor has shown an unusual interest in these topics: yet most of the information has been confined to measures of total public expenditure and of public expenditure as a proportion of GDP. There is much less information about the composition of public spending. Yet the 'Plowden' public sector had a particular character which helps to explain the type of control system which was adopted. The Plowden public sector

could be described in terms of a 'public utilities' model, and the changes since have taken it away from this model.

Some features of the change are set out in Table 1. In 1961 capital expenditure was 23.2 per cent of total public expenditure even before the expansion of spending on social programmes which took place in the last phase of the Macmillan government. Transfer payments were about 20 per cent of the total. In 1986 the shape of public expenditure looked different. Capital expenditure was 9.0 per cent of the total although privatisation programmes and changes in definition mean that such a change has to be treated with some caution and transfer payments had risen to 35.4 per cent. One sign of change was in the relative importance of the social security programme. In 1961 'national insurance pensions and assistance' accounted for 17.8 per cent of total public expenditure: by 1986 social security spending accounted for 33.5 per cent of the total.

The Plowden Report looked forward to a period when there would be even more public sector capital expenditure and its recommendations for consistency and long-term planning in public spending related to this prospect. As the Report itself said:

"The advantages to the Department (and through them to the other public authorities with which they work) of being able to plan ahead are particularly great in the field of capital expenditure. There are certainly substantial economies to be gained here... The present arrangements between the Treasury and the Departments seem somewhat uneven in this respect. The investment authorisations for some departments cover adequate periods

Table 1a

Public Expenditure : Selected Changes Since Plowden (£m)

	1961	% of Total	1986	% of Total
Current Grants To Persons	1,801	19.7	50,543	35.4
Gross Domestic fixed capital formation.*	2,122	23.2	12,851	9.0
Total Public Expenditure (excluding debt interest)	9,160	-	142,628	-

* Gross Domestic Fixed Capital Formation by public corporations, central and local government.

Table 1b

Social Security Expenditure

	1961	% of Total	1986	% of Total
Expenditure on 'Social Security'	1,628	17.8	47,850	33.5

Source: CSO National Income and Expenditure

forward for planning purposes; we would cite the Ministry of Education and the University Grants Committee: a long-term programme for hospital building is now being developed and a five-year programme for motorways: the electricity power station programme must of course be authorized several years ahead. But there may still be significant areas of public investment in which the present system of financial authorisation gives insufficient scope for forward planning and we hope this will be remedied",²

Sir Richard Clarke who as the Treasury official responsible for public expenditure introduced the Plowden system clearly saw control of capital expenditure as its main function. In a lecture given in 1964 he wrote how the Plowden Report had shown that "You cannot get any grip on expenditure by looking only at next year, for this is the wrong time scale. Sir Winston Churchill expounded the basic rule of munitions production... The first year yields nothing; the second very little; the third a lot, and the fourth a flood. A gradual build-up is usual in most public expenditure programmes: a decision is taken today, and the consequent expenditure does not begin to flow for a year or even two or three. The Channel Tunnel report showed that even if the project had been started in 1963 the expenditure would have been quite modest until 1967-8. A decision today to build an aircraft carrier would involve only small expenditures before 1967 and 1968. The recent decision to build a new British Museum Library will be translated into actual expenditure running from the middle 1970's. In many social services the growth of expenditure develops in two phases -- first the capital expenditure, which in a hospital, for example may take five years to plan and carry out and then the continuing flow of current expenditure when the new facilities are

ready for use."³ [Clarke 1964] He was wrong about the completion date of some of these projects but right about the importance of capital expenditure in the public sector of the 1960's.

The Plowden system was designed for a particular type of capital expenditure programme involving long-term expansion of programmes in hospital building, defence and higher education which were either directly controlled by central government or highly visible to it. The expenditure revolved around a relatively small number of large projects. Capital spending in the public sector is now somewhat more integrated with the management of programmes and covers many more small projects. The large national plan has gone out of fashion. The statistical changes in the amounts of public sector capital expenditure since 1961 are difficult to measure. But consistent figures are available for capital spending in central and local government excluding public corporations. They show capital spending as declining from 10 per cent to 5 per cent of the total (Table 2). The size of the public sector may have been reduced by privatisation and definitions of current and capital spending may have altered: but on all measures capital spending has shown a decline as a proportion of total public expenditure.

The change in the relative importance of spending on social security is equally clear. As Table 2 shows there were two periods of rapid growth. These were around 1966 coinciding with the change from National Assistance to Supplementary Benefits and from 1977 onwards reflecting first policy shifts after the IMF package and then rising accounts for a third of public expenditure. In 1987/88 benefits to elderly people accounted for 50.5 per cent of this spending: for the

Table 2

Changes in Capital Expenditure and in Social Security Expenditure

1961-1986 (£M)

	Gross Domestic fixed capital formation	As % of Total Public Expenditure	Social Security Expenditure	As % of Total	Total Public Expenditure*
1961	919	10.0	1628	17.7	9,170
1962	1029	10.5	1744	17.8	9,769
1963	1108	10.7	1988	19.1	10,393
1964	1393	12.2	2,099	18.4	11,421
1965	1505	11.8	2,408	18.9	12,724
1966	1683	13.1	2,577	20.1	12,789
1967	1979	13.3	2,900	19.5	14,894
1968	2169	13.3	3,340	20.5	16,272
1969	2245	13.4	3,571	21.3	16,781
1970	2431	13.2	3,921	21.3	18,408
1971	2562	12.3	4,308	20.7	20,801
1972	2731	11.6	5,111	21.7	23,593
1973	3660	13.4	5,528	20.2	27,295
1974	4410	12.6	6,835	19.5	35,096
1975	5030	10.9	8,906	19.2	46,257
1976	5422	10.4	11,233	21.5	52,240
1977	4817	8.8	15,014	27.5	54,525
1978	4653	7.3	17,924	28.0	63,949
1979	5145	6.8	20,944	27.8	75,426
1980	5499	6.0	25,438	27.8	91,457
1981	4568	4.5	31,057	30.3	102,345
1982	4254	3.8	36,160	32.1	112,677
1983	5680	4.6	39,142	32.0	122,252
1984	6541	5.1	42,406	32.9	128,924
1985	6581	4.8	46,389	33.7	137,748
1986	7296	5.1	50,195	35.2	142,628

* Narrow Definition, Gross Capital Formation by Central and Local Government Excluding Public Corporations.

** Excluding debt interest.

[Source: CSO : National Income and Expenditure]

sick and disabled 15 per cent: for unemployed people 15 per cent and family benefits 17 per cent. The proportion of households dependent on state benefits for most of their income rose from 25 per cent in the early 1960's to 35 per cent in 1982.

The 'economic' role of public expenditure can be defined in terms of its effects on the allocation of resources: on growth rates and on capital formation. There is some evidence for a reducing 'economic' role for public expenditure which is strongest in terms of comparisons over the past ten years (Table 3). From 1976 to 1986 general government spending fell slightly as a proportion of GDP and spending on goods and services also fell. The measurement problems with capital expenditure have already been mentioned but it is clear that public sector capital expenditure has fallen as a proportion of total capital expenditure in the economy (Table 4). It was 40 per cent of total capital expenditure in the early 1960's and remained about this proportion until 1976. Since then public sector role in capital accumulation has been much reduced so that by 1986 public sector capital spending was only 20 per cent of the total.

The 'social' role of the public sector can be defined in terms of its impact on household living standards. The increased dependency of households for income support on public spending is clear. Public spending is now more rather than less important in term of its impact on the day to day functioning in society of many households. The distinction between social and economic effects is not clear-cut as social security programmes may affect labour market incentives: but most of the payments go to households where the head is permanently out of the work-force. Compared with the public sector at the time of Plowden the social role of the public sector is much greater and the economic role of the public sector is viewed very differently by policy-makers. There has already been some reduction

Table 3

General Government Expenditure as a Percentage of GDP
1890-1986

	General Government Expenditure	Spending on Goods and Services Only
1961	35.1	19.8
1962	35.7	20.3
1963	35.6	20.3
1964	36.0	20.6
1965	36.6	20.6
1966	37.4	21.2
1967	40.9	22.6
1968	41.4	22.3
1969	40.0	21.6
1970	40.1	22.0
1971	40.5	22.2
1972	40.8	22.4
1973	41.1	23.0
1974	46.8	25.2
1975	48.8	26.6
1976	46.9	26.0
1977	42.5	23.6
1978	43.0	22.7
1979	43.3	22.3
1980	45.1	23.7
1981	46.0	23.6
1982	46.4	23.4
1983	45.9	23.9
1984	45.5	23.7
1985	44.5	22.9
1986	42.8	22.9

Source: Economic Trends (1987).

Table 4

Public and Private Capital Expenditure (m)

	1961	% of total	1976	% of total	1986	% of total
1. Personal Sector	844	18.4	4390	17.9	18123	28.2
2. Company Sector	1933	42.2	9999	40.8	33253	51.8
3. Public Corporations	898	19.6	4693	19.1	5555	8.6
4. Central Government	217	4.7	1408	5.7	3303	5.1
5. Local Government	684	14.9	4014	16.4	3993	6.2
Total Capital Expenditure	4576	100.0	24504	100.0	64227	100.0
3-5 As % of total Capital Expenditure		39.2		41.2		19.9
3-5 As % of GDP at factor cost		7.4		7.6		4.0

Source: CSO National Income and Expenditure.

in the economic role of the public sector and further reductions are intended in the future.

The Public Expenditure Control System

The Plowden Committee aimed to improve a control system which had been little changed for a century. Against such a background it had naturally to concentrate on improving efficiency both in the sense of minimising the cost of performing particular tasks and in the sense of planning expenditure in relation to government objectives. In practice, it concentrated mainly on planning of total public expenditure reasoning that greater efficiency at the programme level would follow from greater stability in the planning of the aggregate. "Decisions involving substantial future expenditure should always be taken in the light of surveys of public expenditure as a whole, over a number of years and in relation to the prospective resources."⁴ This concern with political and financial control of aggregate was translated into a new system of decision-making which had four main elements:⁵

- (i) Regular surveys should be made of public expenditure as a whole over a period of years ahead in and relation to prospective resources: decisions involving substantial public expenditure should be taken in the light of these surveys.

- (ii) There should be the greatest practical stability of decisions in public expenditure when taken so that long-term economy and efficiency throughout the public sector have the best opportunity to develop.

(iii) Improvements should be made in the management of public expenditure including increased use of O and M and better methods of choosing between capital projects.

(iv) There should be more effective machinery for the taking of collective responsibility by Ministers on matters of public expenditure.

The report has much to say about the planning of capital expenditure: problems of planning and control of social security expenditure are hardly mentioned. There is one reference to future planning of national insurance pensions.

There have been attempts over the 27 years to change the Plowden. The main ones have been as follows:

1. The introduction of PAR (Programme Analysis and Review) in 1970.
2. The introduction of cash limits from 1976 onwards and of cash planning beyond the current year cash limits in 1982.
3. The publication of a Green Paper on the medium term outlook for public expenditure in 1984.
4. Reviews and special analyses of selected areas of public expenditure. The review of future social security expenditure in 1984-5 was the main example.
5. The introduction of the Financial Management Initiative which aims to bring about decentralisation of budgetary control and more effective financial management.

6. Improvements in timing and presentation of information on public expenditure recommended by the Treasury and Civil Service Committee of the House of Commons.

Some of changes aimed to promote a redefinition of the aims and outputs of public expenditure. These were abandoned sooner rather than later. Others were more concerned with the use of resources within defined and established programmes. These have taken hold and set the framework for management activity. The public spending control system has become even more fixed on issues of short-term efficiency and financial control. The innovations concerned with 'efficiency' have had much more impact than those concerned with 'effectiveness'.

1. The Rise and Fall of PAR

PAR (Programme Analysis Review) was a British derivative of the American innovation of Planned Programme Budgeting (PPB).⁶ Within the Federal Government, PPB was to be carried out on a regular annual basis and this was done between 1968 and 1971⁷ The aims of PPB were ambitious:

- (a) The identification of objectives in the main areas of government activity.
- (b) To identify and analyse the output of each government programme in terms of the objectives.
- (c) The measurement of the full costs of each government programme including its social costs.

- (d) To analyse all possible alternative means of reaching a programme's objectives.
- (e) The assessment of the results of various programmes undertaken by government.

The British version was to be highly selective and concerned with policy review rather than with an annual accounting framework. There was little enthusiasm for the full PPB system. PAR was an attempt to carry out reviews of selected departmental and inter-departmental programmes on a regular basis. The aims were to increase the co-ordinating and controlling capacity at the centre of government and to provide an evaluative element in the PESC framework. The reviews were carried out by Special Teams of Civil Servants and looked at the amount and use of resources, the aims of programmes and any alternative ways of achieving these aims. PAR is usually judged to have been a failure and was formally abandoned in 1979.⁸ This failure is blamed variously on lack of official interest in exercises carried on outside the normal hierarchy and on the influence of pressure groups. The PAR reviews sometimes dealt with detailed areas of policy such as the future of higher education which led to conflict over pressure groups. But it can also be argued that the problem was much more to do with the chosen focus of PAR rather than with administrative arrangements. As one senior civil servant is quoted: "Policy is indigestible, management is not",⁹ The official reasons for failure were that it 'ran into the sands' and that 'it failed to take account of the enormous range of government business': but the experience showed how difficult it would be to extend the PESC system to cover the evaluation of a wider range of alternative policies.

2. The Development of Cash Limits

In 1974-6 actual public spending had run well ahead of forecast levels and supplementary estimates were running at embarrassingly high levels.⁽¹⁰⁾ Cash limits were introduced in 1976 to ensure that levels of spending could be controlled and predicted at least for one financial year. Cash limits or each year are published at the time of the Budget. The policy has been successful in establishing control. In fact there is usually some underspending on cash limits; a consequence of treating them as a limit rather than a target. According to the Treasury's handbook on the Management of Public Spending "Since the introduction of the system, almost all cash limits have been observed."⁽¹¹⁾ But in 1986 they were still only covering 40 per cent of public expenditure.

In 1982 cash limits were extended forward into future years as 'cash planning'. The estimates carry no guarantees of a particular volume of service and do not embody any specific forecast of inflation. The modest rate of increase in cash terms is designed to help bring about a low rate of inflation. The use of the technique has caused little controversy, except in the National Health Service.

3. The Next Ten Years: Public Expenditure and Taxation into the 1990s

This document was unusual in that it did try to link future projections for public expenditure to an analysis of the social demand for expenditure. Much of the paper was about past trends in public expenditure and taxation. Since 1963: "Powerful forces were at work driving public expenditure upwards over this period".⁽¹²⁾ Such forces included

demographic change, expectations of help to the disadvantaged, plans for economic growth and over-optimism about the prospective growth of national output. The Green Paper expected that such pressures would continue in the future. The demand for public services is not restrained by the price mechanism so that it is "literally limitless". In the absence of control by the individual consumer the government is forced to ration supply and the form of rationing becomes a highly contentious issue of public choice. The argument then stresses the effects of demography on public expenditure. On principles of equity - equal treatment of people with similar problems - an increase in numbers of elderly people is held to require a proportionate increase in spending on services. For income support there are automatic links in terms of rights to pensions. There are also likely to be pressures from rising expectations, as the incomes of the working population increase. On the supply side costs are likely to rise in services requiring personal contact and even where change in technology yields cost savings, the savings are likely to be taken up through improvements in services.

The central recommendation was that the past record and future prospects required above all firm control of the public expenditure total. Twenty five years after Plowden the same theme recurred of the need to relate individual programmes to the total. The Plowden Report had seen a future in terms of growth in the total in line with national resources. The Green Paper aimed at a static total in real terms in order to allow for reductions in taxation. "The Green Paper shows that without firm control over public spending there can be no prospect of bringing the burden of tax back to tolerable levels."⁽¹³⁾ Finance must determine expenditure not expenditure finance and improvements in services must be financed largely through improved efficiency, in the public sector. Even though the

political climate had changed, the approach and the direction of interest are still very much those of the Plowden Report.

4. Special Reviews

The most important of these exercises - that carried out on social security - had results which are unlikely to encourage early repetition. The Green Paper seemed to be aiming at fundamental changes. "To be blunt, the British social security system has lost its way".⁽¹⁴⁾ The Green Paper presented a picture of rising cost, lack of clarity in aims and inequity. Its central proposal was for the phasing out of the State Earnings Related Pension Scheme (SERPS) together with a new system of income support for poorer families. The 1987 Public Expenditure White Paper shows that family credit would cost about twice as much as Family Income Supplement.⁽¹⁵⁾ A great deal of background work and much intense controversy led to some reduction in the long-term costs of pensions but failed to bring about the complete re-organisation envisaged in the original Green Paper.

5. The Financial Management Initiative

Originally, this required departments to develop organisations and systems in which managers have to define objectives in a fairly broad manner. It did not set out to provide the same system of financial control for all departments.⁽¹⁶⁾ It was limited to broad objectives and guidelines which would give managers well defined responsibilities for using resources and accounting for their performance. However, the system has been more successful in encouraging better financial management in the short-term than in bringing about longer term changes.

6. Improving the Timing of Public Expenditure Decisions

The Treasury and Civil Service Committee of the House of Commons has recently recommended changes in presentation and timing of public expenditure information which might help to improve decisions. (Treasury and Civil Service Committee 1988). At present information is divided between the Autumn Statement presented in November and the Public Expenditure White Paper presented in January. The Committee has recommended that most of the information relating to public expenditure totals currently published in January should be combined with an enlarged Autumn Statement and that Departments should then produce their own annual reports incorporating the detailed material currently found in Volume 11 of the White Paper. This would certainly help towards a more informed public and parliamentary discussion: it would allow debate before the actual financial year started: but it does not amount to a major change in the 'Plowden' framework.

Thus after almost 30 years the Plowden framework remains intact: but operating with a difference in time-horizon. In the original Report the aim was that the planning of public expenditure should be carried out on a longer term basis. The argument for long-term planning was that capital projects themselves took a long time and the revenue consequences took even longer to materialise. The Plowden system came into existence at a time when government was carrying through a big programme of capital expenditure on the social services after a long time when there had been very little capital spending. It reflected all the concerns of such a period. The pressure on overall resources was likely to come from the longer term effects of the expansion of capital spending which were likely to get too

little attention from policy-makers. There was little concern at the time about the future pattern of pensions and of income support and the Report did not deal with possible situations where past commitments to income support might lead to pressure on total resources.

The system has become one of short-term control and such innovations s have been adopted have led to increased in efficiency rather than any shift in focus towards the wider social choices which lie behind public spending decisions.(17)

Planning Public Expenditure in the Future

In the terms set by the Green Paper of 1984, it may well seem that public expenditure is ceasing to be a "problem". At least for the immediate future tax revenues seem likely to rise faster than public spending programmes. The "inexorable" pressures to higher spending are present for the National Health Service but seem containable for other services. For the first time for many years the immediate control of public expenditure is some way down the political agenda. Yet in crude terms public expenditure will still amount to about 40 per cent of GDP for the foreseeable future and provides a main source of income for one third of households. Thus, even if the short-term problems of control have been resolved the medium term problems of purpose and relationship to the wider society deserve some attention.

The attempt to replan public spending from the bottom up using output budgeting was a failure both in Britain and in the United States, and is unlikely to be repeated. Yet the reasons for which PPB came into existence

are still there. The public expenditure control mechanism is almost entirely involved with efficiency rather than with purpose. Government still plays an important role in stimulating social investment in certain demographic and economic groups as well as in carrying out specific projects. The investment appraisal system has been developed to deal with specific projects: but there is little attention to the wider choices in social investment. Political views may differ on how far government should be involved in such social investment: but it may be sensible to search for ways in which the process of decision-making could be improved. There are three groups on society which are especially affected by decisions on public expenditure: the elderly; families with children; and the unemployed.

The programmes directed at these three groups accounted for 53.3 per cent of public expenditure in 1987/88. Defence and external relations make up the only other linked sets of budgets of a comparable size. They account for 14.5 per cent of the total and the remaining 27.7 per cent is divided among many small programmes. It is the client group budgets which have shown the most rapid growth in the 1980's from about 42 per cent of total expenditure in 1981/2 to 53 per cent in 1987/8. (Table 5). Many 'economic' programmes -- for example those concerned with industrial investment grants to private sector firms and with housing capital expenditure -- have been much reduced over the period. Excluding defence and the client group budgets other public expenditure rose in the 1980's from £32 bn to £41 bn.

The planning of these client group budgets is crucial to any improvement in public expenditure choices or the future. There are three

Table 5

The 'Programme Budgets' and Other Public Expenditure

	1979-80	As % of total	1987-88	As % of total
Elderly	15,142	19.7	34,550	23.4
Children	16,755	21.8	33,694	22.9
The Unemployed	1,682	2.2	10,361	7.0
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Sub-Total	33,579	43.6	78,605	53.3
Defence and External Relations	11,258	14.6	21,384	14.5
Other programmes	32,134	41.7	40,861	27.7
Total Public Expenditure (Planning Total)	76,971	100.0	147,300	100.00

Source: HM Treasury 1985, HM Treasury 1988.

specific ways in which the programme budget approach could be used on a top down basis in order to improve public expenditure planning in the medium term.

-- Regular information could be presented in the public expenditure White Paper about public expenditure on a client group basis for the three key groups of the elderly, families with children and the unemployed.

-- Information should be presented on government activities including tax expenditures, and regulation as well as direct public expenditure for these client groups. This would assist in more effective choice of alternatives. The focus would be on 'public initiative' rather than just on public expenditure. The progress made towards a more integrated analysis of tax expenditure and public expenditure made in the late 1970s had not been maintained: Yet the relative importance of tax expenditures has grown.

-- changes affecting particular demographic cohorts could be assessed while there is still time or change to affect choices for the future. Thus there is little that can be done to reduce poverty in old age among those who are already elderly, but it should be possible to change policies in ways which would reduce the incidence of poverty in retirement among people who are currently in middle age.

These three types of analysis would go some way to ensure that the social investment aspects of public expenditure would get adequate attention, now that public expenditure is concerned increasingly with income support rather than with capital expenditure. Just as medium term planning was needed for capital expenditure, so a more integrated medium term approach is required for the new core programmes in public expenditure. The three steps suggested here do not imply any

preconceptions about future levels of public expenditure or the future role of direct public supply, but they would allow more considered choice as between income support and services and as between direct public expenditure and other ways of exercising public initiative.

The Programme Budget for Client Groups

The variety of the functions which government performs in the economy and the complexity of the ministries and agencies used to carry them out helps to conceal the fact that public expenditure is highly concentrated on a few programmes. Some estimates for client group budgets are set out in Table 6 based for services on the estimated utilisation rate of the specific groups.

The largest single budget is that for the elderly and this has also shown the most rapid growth in relation to the public expenditure total over the past six years. There are a number of different programmes run by separate agencies which all have the similar aim of keeping the elderly in the community. These include:

- Income support through pensions and supplementary benefits.
- Support to housing costs through Housing Benefit.
- The attendance allowance paid to offset the costs of home care.
- Social services both through residential care in old peoples homes and through community services.
- Health services where people over 65 use a half of all services.

Table 6

The Client Group Budgets 1987-88 (£m)

1. <u>The Elderly</u>	
<u>Health & Social Services</u>	10,700
Social Security Benefits	23,100
Attendance Allowance, Invalid Care Allowance and Mobility Allowance	750

	34,550
2. <u>Families with children</u>	
Education	20,304
Health and Social Services	5,740
Family Benefits	7,650

	33,694
3. <u>The Unemployed</u>	
Benefits	6,860
Enterprise, Job Creation and Training	3,501

	10,361
4. Total Client Group Budgets	78,605
5. Public Expenditure Planning Total	147,300
4 as % of 5	53.4

Source: H.M. Treasury 1988 and Author's estimates.

- Support to elderly people living in private and voluntary homes such as nursing homes. Spending here has risen particularly rapidly over the past six years.

The second most significant client group in terms of expenditure is that of children and families. This is the only one of the groups for which services are more important than income support with spending on education and the health service accounting for most spending. Besides the other two budgets the programme budget for the unemployed is smaller although it has shown rapid growth.

Assessing Public Initiative as Well as Public Expenditure

There are a number of reasons why it has become more important to assess alternative ways of reaching aims such as the fairly uncontentious one of providing more support for the elderly:

- Tax expenditures are already important especially for the elderly and are likely to become more important in the future as numbers with personal pensions increase. Already in 1987/8 tax reliefs connected with occupational pensions amounted to £10,250 or about 30 per cent of current payments on income support for the elderly. In 1979-8 they were less than £1 bn.
- There has already been an increased contribution from private and voluntary supply in terms of places in nursing homes and on current policies further increase in private supply is likely in the future. This has already been accompanied by increased regulation such as the 1984 Residential Homes Act and such regulation of private supply is

likely to become more important - and impose more obligations and costs - on suppliers.

- The supply response from the private sector for programmes giving a government guarantee against risk without any immediate commitment of public funding is likely to be greater in an economy where the private sector is more competitive. The attractions of such indirect and partial forms of public expenditure are likely to grow, especially where they are linked to the development of a greater variety of suppliers and reduction in public sector monopoly.
- The role of public supply needs to be assessed against the contribution of private markets. Thus for the elderly, a private market in sheltered housing has developed in the 1980. The YTS scheme has in effect created a new range of suppliers for training and entrants to the labour market already in effect have a voucher which they can use to stay on in the sixth form at school, to take a place in a technical college, or to take a place on a YTS scheme. There may be other ways in which the 1988 Education Act will stimulate the development of private markets in education. Government seems likely to be concerned increasingly with the use of public funds to stimulate the growth of private markets in housing as well as in education.

The wider review would imply a changed role for government. It would be involved in setting aims but it would be prepared to examine more explicitly the means to arrive at these aims. Table 7 summarises the wider coverage of government programmes taking the elderly as an example. It would be possible to analyse this both in the current year and prospectively, assessing the effects of direct public expenditure, subsidy

Table 7

Assessing 'Public Initiative' and Private Supply:
The Elderly 1987/88 Em

Public Expenditure

Health and Personal Social Services	10,700
Social Security Benefits	23,100
Attendance Allowance etc.	750
TOTAL	<u>34,550</u>

Tax Expenditures

Relief on Employees Contributions to Occupational Pension Scheme	1,600
Relief on Employers Contributions	2,900
Relief on Investment Income of Occupational Pension Schemes	4,100
Relief on Lump Sum Payments to Pensioners	1,200
Relief on Retirement Annuity Premiums	450
TOTAL	<u>10,250</u>

Payments to Private Suppliers for Services

Private Nursing Homes	500
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Regulation of Private Suppliers

Residential Homes Act 1984

Contribution of Private Market

Retirement Housing

Number of places	c. 100,000
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Source: The Government's Expenditure Plans 1987/88 - 1989/90.

and regulation in a consistent way. It would also be possible to examine the effects on income distribution of various different mixes of policy. For example, increased use of tax expenditures may do little to help the poorest in old age.

The proposals on information set out here would allow new approaches to policy planning in the medium term. Within the public expenditure framework they would allow choices between income support and the development of services to be made much more explicitly. More widely they would allow choices to be made between direct public expenditure and other ways of exercising public initiative, as by subsidizing private supply or through regulation. The 'Plowden' approach fitted well into the planning of services involving a high level of capital expenditure and it was adapted to the short-term efficiency issues which have been all important" but it has not provided a medium term framework for social investment. Government has called on others to plan strategically; but it has not been willing to do so itself.

A Cohort Approach

The programme budget data and the assessment of public initiative could be added quite easily into the tables and information provided in the Public Expenditure White Papers. But it would also be possible to examine the economic and social prospects of a group in more details and to assess the possible future of public expenditure which might result. Policy and expenditure decisions could start from a more detailed analysis of age group effects. For example, such an approach could be highly relevant for the 55-65 age group in Britain. This section looks at how such longer term changes could be assessed. The approach could be relevant to other age

groups as well, but there are a number of reasons by the 55-65 age group should require special attention: (18)

- There has been a sudden change in the labour market situation of this group. Full-time work up to retirement at 65 used to be almost universal but will soon be exceptional. Prospects for individuals have changed, and so have the choices available to them. There may well be effects on the economy in terms of reduced productive potential.
- The fall in activity rates means a reduction in pension income after retirement. The problem of poverty and low income in old age has been serious in the past: recent developments may well have given it a future on into the next century.
- There is little chance that the changes in activity rates will be reversed. Evidence, both from the UK and abroad, suggests that the fall in activity rates affecting these age groups is likely to be permanent: in fact, it is likely to go further. This is not a temporary, recession-led change but a permanent alteration in the control of the labour market.
- The rules and politics set by governments have an enormous influence on the choices available to individuals in this age group. Government has a direct impact through setting the age of entitlement to the state pension, but it also has a wider influence on decisions of other agencies such as insurance companies.

Future government policies could be assessed in terms of effects on:

1. Individual Choice

It may be that rules and government policies could be changed so as to allow people to exercise preferences more effectively and make their contribution to society in different ways. For example, greater flexibility in pension age or access to retraining would allow people to change jobs and life-patterns and to innovate more easily later in life.

2. Economic Performance

In the last ten years it has been assumed that there is a strong social and economic interest in encouraging early retirement on the grounds that the jobs vacated by older workers would be filled by the young unemployed. But, if such competition between the old and young is not a reality, there may well be a loss of potential output and labour supply which ought to be minimised. Continued employment of older workers could well be complementary to increasing opportunities for younger workers if gains in output and in economic initiative are more important than any direct replacement effect.

3. The Government Budget

The effects of higher long-term unemployment and earlier retirement will be to raise social security spending and reduce tax revenue.

The labour market situation of the 55 to 65 age group has changed markedly. The first type of change has been in unemployment. From 1980 to 1987 the unemployment rate of the 55-59 age group has risen from 6.2 to

Table 8
Activity rates - Males Great Britain

	55-59	60-64
1971	93.0	82.9
1979	90.8	73.0
1980	90.1	71.2
1981	89.4	69.3
1982	86.8	64.3
1983	84.1	59.4
1984	82.1	56.7
1985	82.0	54.4
1986	80.3	53.4
1987	79.5	54.6

Source: Department of Employment, 1988.

15.9 per cent and although there has been a fall recently the rate is likely to remain higher than for other groups. 55-59 year olds are also more likely to be unemployed for long periods. Their median duration of spell of unemployment in 1986 was 86.4 weeks, compared to 40.2 weeks for all workers and their chances of ever leaving the register for employment are small. The unemployment experience of the 60-65 group has been rather different. In 1980 their unemployment rate was above the average at 8.6 per cent. It then trebled to 26.3 per cent, but since the long-term unemployed in the age group have been allowed to retire, the rate for the age group has fallen to 8.5 per cent. But even after this change in social security policy workers aged over 55 accounted for 29 per cent of all men unemployed for more than a year.

This rise in unemployment has helped to bring about falls in activity rates, reducing numbers in paid employment or actively seeking it. There was some gradual fall in activity rates in the 1970s, but since 1979 the fall has been much greater, especially for the 55-59 sub-group. The slow fall over the earlier decade - mainly brought about by easier retirement for people in poor health - has accelerated for people between 60 and 64. For people between 55 and 59 the increasing rate of withdrawal from the workforce is a new development. For the economy withdrawal from the workforce involves a loss of potential output.

There are also costs to the government budget. These include costs of income support as well as some costs for labour market programmes. The income support costs were about £2 billion in 1984-5 and the cost of the main special programme - the Job Release Scheme - was about £100m. These support costs are about one-fifth of the total cost of all support programmes to unemployed and disabled people.

How are these costs likely to rise in the future? It could be hoped that the rate of unemployment will fall and previous levels of workforce-participation return. But the international evidence suggests that the reversal of trends is highly unlikely in this century, and the Department of Employment no longer predicts any future rise in participation.

The Government response to these problems so far has been set by political and budgetary concerns of a short-term character pressing on different departments. The Department of Health and Social Security (DHSS) has stressed the costs for social security arising from any lowering of the age of retirement. Meantime the Department of Employment has been trying to reduce the numbers on the unemployment register by encouraging early retirement.

The Department of Employment has taken decisions which have increased social security spending in the short-term with further consequences to come. In 1981-83 unemployed men between 60-64 were allowed to draw the long-term rate of supplementary benefit, and to withdraw from the unemployment register. The change may have immediate benefits to individuals but it also has costs in terms of increased social security spending and poverty.

The central concern of the DHSS on the other hand has been to reform the pension system so as to reduce its long-term cost. Could there be an alternative framework for policy choice?

The evidence challenges the adequacy of this past response. Some basis change in the economic position of this age group is apparent and there is

every likelihood of more to come. By the mid 1990s about half of men in the 55-65 age group may well be outside paid employment. In turn that may well lead to increase poverty in old age, to restriction of individual freedom of choice and to losses of productive and creative potential.

Policies can usefully be categorised into two types, "integrative" and "compensatory". (19) Integrative policies aim to help older workers to maintain their place in the workforce and to overcome disadvantages in terms of productivity. Examples of "integrative" policies include reductions in working hours or a shift to part-time work, the development of special training programmes or transfers to different work. Compensatory policies, on the other hand, make it easier for people to retire by raising income after retirement. They might allow special access to unemployment benefit or early retirement without loss of pension.

Against this background, what criteria should influence the choice of public policies? The choice will certainly be affected by constraints on public expenditure: but there may be policies with net social benefits which can be implemented at low cost. Nor should it be assumed that there is any necessary antithesis or conflict between compensatory and integrative policies. The balance of policies does not have to be exclusively of one type or the other. There are arguments on equity and efficiency grounds for finding an appropriate mix: integrative and compensatory policies could well be complements rather than substitutes.

At present early retirement is seen as a negative or passive state. Government policy towards it basically derived from the situation of the 1970s when the early retired were a minority in poor health. As the situation changes there is a wider public interest in assisting as many

people as possible to maximise their contribution to the economy and to society. There could be new ways of providing people with more opportunities to develop new skills and to engage both in market and in non-market activities.

It has been argued that policies need to be assessed from three points of view: for their effects on individual choice, on the economy and on the government budget. For the first it can be assumed that choice is "good". If people choose to retire early and can make privately-funded arrangements to do so, then that remains a private decision. The public interest only arises if this decision is likely to lead to a future dependence on public funds for income support.

The first public interest must be in helping those with poor health to leave the labour force early without loss of income after retirement. The cost to the individuals of forced continuation at work outweighs any possible gain to the economy or to the government budget. People with little prospect of further full-time employment, either on health or economic grounds, should be able to retire early and should have the first claim on income support.

This suggests that any public contribution to compensation should be concentrated on those in this situation who are likely to be least compensated by the private market.

A second guideline for policy should be that barriers to increases in output and in economic contribution should be removed where this can be done without jeopardising the employment prospects of younger workers. This would point towards encouraging continued participation in the

workforce for those with scarce skills in management, marketing, science and technology - or at the very least in removing the barriers which prevent continued participation.

As for the government budget, the increase in dependency could lead to significant costs in the longer term. If, therefore, there are steps towards integration which can lead to substantial benefits without large costs, then they should be taken. The case for such steps is not just in terms of economic growth. A society which makes progressively less use of the talents, abilities and aspirations of people over 55 will be one which has unnecessarily restricted, limited and impoverished itself.

These principles point to adoption of proposals which are clearly defined and which have carefully specified aims and benefits. They point away from what until now has been the main new policy on offer - a general equalisation of the age of retirement. There have been years of intermittent argument about the case for this and it may well have blocked more feasible, smaller-scale changes. The proposals for a general equalisation are either too costly or mean that too many people will have an inadequate income in retirement. On the principles suggested here there is little case for such a move. It would involve payment to people whatever their income and labour market prospects.

There could be an option of early retirement from 60 onwards on the long-term rate of supplementary benefit. People with occupational pensions would not be eligible. But people who were unemployed, disabled or still in the workforce with strong preferences for retirement would be able to do so, on a consistent and easily-understood basis. People in better paid jobs are already likely to have more flexibility to retire early if they

wish. That flexibility is likely to increase in years ahead. The proposals here would ensure that people without similar resources would be able to have some of the same freedom.

At the same time employees in the 55-65 age group should be encouraged to develop private savings plans. While the case for general relief for life insurance and endowment policy cover is a weak one, some relief up to a specific amount limited to the ordinary rate of tax for this age group would be useful. In part this will compensate for the benefits that younger investors are likely to gain from their access to endowment mortgages.

Current policies imply a sharp division between full-time work and retirement which was much more appropriate to a time when most people retired at 65. Today, the continuation of this division involves an economic cost in lost productive contribution. It also adds to budgetary costs now and in the future. Moreover, it makes little sense in view of what is known about the demographic and labour force outlook. When the costs of dependency are likely to rise in future in any event because of the general ageing of the population, the perpetuation of arrangements which will ensure even greater dependency than would occur anyway is hardly sensible.

The income of the elderly in the first decades of the twenty-first century will be much affected by decisions taken in the next few years. The piecemeal approach to policy-making within Whitehall has meant that the strong interest in preventing further falls in participation rates has not been clearly articulated. While there has been a great deal of generalised concern about the effects of demographic change on the burden of ageing, there has been little attention to remedial action which might reduce this

burden by changing incentives as they operate at present.

What are the key changes which would begin the process of creating a real decade of retirement? At present people face a choice of staying in full-time work or of leaving the labour force completely. There are few signs that employers are willing to allow their existing employees to shift to part-time work. The key direction of change would be to reduce disincentives to self-employment, to the starting of new businesses, and to new part-time work by people who already have become unemployed. The creation of more choice must be about options in between full-time work and total retirement so that people can continue to make some contribution, but in a different way. These options could include:

- New incentives to people who become unemployed on a long-term basis over 55 to retain contact with the labour market. Anybody who had been unemployed for more than six months would be able to earn up to £60 a week without loss of unemployment or supplementary benefits. This would be a substantial incentive to part-time work and would lead to increased income for individuals and output for the economy. It would also increase the scope for private saving thus reducing dependence on state benefits in the future.
- The Enterprise Allowance Scheme should be adapted so as to give more help to people in the older age group to start their own businesses.
- There should be more extensive recruitment of the early retired as trainers for projects under the Youth Training Scheme and the

Community Programme. The government's new plans for recruiting mature entrants into teaching could be a model for this.

- People over 55 should have more chance of access to higher and further education.

Conclusion

It would be possible to carry out the same type of 'cohort' analysis for other groups. This would be an extension of the demographic forecasts which are already used in public expenditure planning so as to assess changes in social and economic conditions which actually determine the impact of any particular change in demography on public expenditure. The cohort analysis would also make it possible to look at such changes prospectively while there was still time for various kinds of public initiative to alter future levels of income and assets. Such analysis would also encourage greater coherence in policy response between government departments.

Footnotes

1. The figures in Table 1 are based on Blue Book series on capital expenditure. The 1988 White Paper on public expenditure has set out a new wider definition of public sector capital expenditure. By this definition public sector capital expenditure totalled £21,925 in 1986-7 or 15.4 per cent of total public expenditure.
2. H.M. Treasury (1961), p.9.
3. Clarke (1964) pp. 19-20.
4. H.M. Treasury (1961), p.5.
5. Else and Marshall (1979) give a good account of the Plowden system.
6. The rise and fall of PAR is charted by Gray and Jenkins (1982) based on interviews with participants.
7. The aims are well set out in Schultze (1968).
8. Heald (1983), p.187.
9. Gray and Jenkins (1982), p.448.
10. An account by the architect of the new system is in Pliatzky (1982).
11. H.M. Treasury, (1986), para 58.
12. H.M. Treasury, (1984), p.6.
13. H.M. Treasury, (1984), p.20.
14. DHSS (1985a), p.1.
15. H.M. Treasury, (1987), p.247.
16. H.M. Treasury, (1986), para 77,
17. There is an excellent discussion of the efficiency problems of the public sector in Levitt and Joyce (1987).
18. This discussion is based on Bosanquet (1987).
19. Casey and Bruche (1983) has a good discussion.

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