9

Prime Minister

At Flag C is a minute from Sir K Joseph which has just come in.

TL 11/7

SECRET

Ref. A09948

PRIME MINISTER

Public Expenditure to 1983-84

(C(79) 25, 26, 27, 28 and 29)

1. This is inevitably a very long brief. But you will find that paragraphs 15-16 (pages 6-15) deal with individual programmes and can be read during the meeting as you go along.

BACKGROUND

2. You have already seen and discussed with the Chancellor and the Chief Secretary the two main papers. You decided (Mr. Lankester's letter of 6th July) to authorise their circulation, with the higher target (£6.5 billion) for 1980-81 suggested by the Chief Secretary.

3. The paper on nationalised industries is an essential part of the whole: the proposed cuts in that area add up to £350 million. If those cuts cannot be found, even larger savings would be needed on other programmes. It is therefore essential to take the two papers at the same meeting. But the nationalised industries paper will have had a preliminary run at E(EA) on Wednesday afternoon.

4. You have also agreed that the Secretary of State for Education should be allowed to circulate his own paper C(79) 29: this has not, so far, provoked similar counter-papers from other spending Ministers.

Flag A

5. Finally, the Secretary of State for the Environment has minuted you (10th July) reporting discussions in the Local Authority Consultative Council. These discussions point to the need for a general Government statement on public expenditure in 1980-81 before the Recess, so as to put the cuts in local authority spending into context. This is going to be difficult. Such a statement should obviously be made to the House, and not by way of Press release during the Recess. Yet we are assuming the need for a number of bilateral discussions after this week's meeting, returning to public expenditure 1980-81 at Cabinet on 26th July. (The remaining years will have to be left till the autumn). This is almost too late for a statement before the House rises. I return to this point below.

HANDLING

6. It is very difficult to see how to structure this discussion: the four papers hang together, and there is a great deal of detailed material. But I think it will be best to start with the macro-economic background. I suggest, therefore, that you introduce discussion by making these points:

(i) You will take the Chancellor's paper (C(79) 27) first, but you want only a short discussion, since the Government's Budget strategy was agreed so recently.

(ii) The Chief Secretary is looking for decisions only on 1980-81 before the Recess, and Cabinet will need to return to the later years afterwards. Nevertheless, decisions on 1980-81 cannot be taken in isolation, and their longer term consequences will be borne in mind as the meeting proceeds. So will the need for legislation, given the congested programme for the remainder of the Session.

(iii) Cabinet should recognise that cuts of £6.5 billion in 1980-81, severe though they sound, are about the minimum necessary to avoid an increase next year in the real burden of taxation (paragraph 12 of the Chancellor's paper). Admittedly there are wide margins of error in the PSBR calculations which underly this figure. But cuts of this order are also needed to be on course for the target of reducing public expenditure to 1977-78 levels by 1982-83.

(iv) You hope to get agreement both on the target total, and on as many individual cuts as possible, at this meeting. You recognise that this will not be easy, and that some problems may be left over for bilateral discussion. In that case, Cabinet will have to return to 1980-81 before the Recess.

(v) However this leaves the problem of timing. The Secretary of State for the Environment has suggested a general statement before the House rises. You will recognise that there is a good case for this. But it may not be practicable. The Cabinet should spend a few minutes at the end of this morning's meeting considering the options for an announcement (see paragraph 17 below).

7.(a) The Economic Background

You could then call on the Chancellor to introduce his paper. Although it is true that Cabinet decided the Budget strategy only six weeks ago, some Ministers may argue that the climate has changed: you will recall that the Secretary of State for Trade said this at E(DL) last week. Your own view remains, I believe, that the Government should stick to its PSBR target for this year, and to a lower target for next year, to leave room for further tax cuts. But some Ministers are becoming alarmed at the consequences of this policy (for example, Mr. Prior's remarks about interest rates at E on Monday) and you may want to give them a brief opportunity to voice these worries. The immediate situation is worse, and the long haul rather longer, than Ministers believed immediately after the Election. Some may be tempted, therefore, to adopt a more gradual approach. I think you could bring this issue to a head yourself, by asking the Chancellor to say what would actually happen to GDP, to employment, to the money supply, and to interest rates, if a higher public expenditure total were allowed next year than the Chief Secretary suggests - for example, if the cuts were limited to £5 or £5.5 billion. The answer may well reassure the doubters in the Cabinet that a more gradual approach would not really help the Government's objectives. (We have arranged that the Treasury will give the Chancellor some quantified material to deal with this question.)

8.(b) The target for 1980-81

At this point, you could call on the Chief Secretary to introduce his paper C(79) 26 (to which the Survey Report on 'the scope for reduction', C(79) 25, is relevant background). The main problem is the choice of the target - the point you discussed with the Chancellor and the Chief Secretary. The cuts identified by officials add up to only £5.5 billion. To get £6.5 billion will require two things:

(i) A lower-base line for the Defence Budget, from which to calculate the NATO 3 per cent growth rate.

(ii) For the rest, an overall 3 per cent cut on top of everything specific listed in the paper.

The first of these has been made more difficult by your subsequent agreement with the Secretary of State for Defence to increase his cash limit on account of the Budget increases in VAT, etc. This has the effect of increasing the base-line by some /£200 million/ in 1979-80, and therefore reduces the room for manoeuvre in 1980-81 by some /£300 million/. I believe the Chief Secretary may try to persuade you to reverse this position. If you are unwilling to do so, a possible compromise would be to regard the bulge in 1979-80 as a temporary departure from the trend line, but to calculate the 3 per cent growth thereafter on the pre-Budget total. This involves, however, a volume squeeze on Defence expenditure in 1980-81 and later years, which the Secretary of State for Defence believes will be obvious to NATO. If this is not acceptable then - in the absence of any more specific cuts - the 3 per cent across the board reductions in other programmes will have to be increased to around 4 per cent. The 3 per cent must already be getting somewhere near the end of what can be achieved by general squeezes, without policy changes: it comes on top of the 3 per cent already so hardly-won this year. However, Sir Derek Rayner's studies should be bearing their first fruit by 1980-81, and this may help with the general cuts. This does suggest, however, that when E Committee returns next week to the question of cash limits for 1980-81, it will have to exercise the need for 'realistic' limits: the scope for further volume cuts in many programmes to finance pay increases larger than has been forecast, will be extremely difficult.

not so; he has accepted, albeit unwillingly (see separate note in box) TL.

9. The presentation in the Chief Secretary's paper makes the probl em a lot bigger than it really is, at least for some Departments. This is because the figures are compared with the plans inherited from the previous Administration. But they do not allow for the changes made in the Budget. If one compares the Chief Secretary's proposals for 1980-81 with what is actually being spent this year, the position looks much more manageable, at least for some programmes. The contrast is particularly marked in the case of housing - much less so for education and transport, though this is partly because these were not much affected by the Budget (see Annex provided by the CPRS). However, over the next three years, the expenditure will need to fall by nearly £3.5 billion from the levels agreed for 1979-80, if the target of getting public expenditure back to

1977-78 levels by 1982-83 is to be reached - i.e. by £1 billion to £1¼ billion a year. The Chief Secretary's proposals, if accepted in full, would give us well over £1½ million towards that, even though they require savings of £6.5 billion from the inherited plans. But this simply gives him a bit of extra room for manoeuvre if Cabinet cannot endorse all his proposals.

10.(c) Programmes

At this point, you could turn to the Annex to the Chief Secretary's paper, and to the PESC Report on 'the scope for reduction' circulated with C(79) 25. There really is no alternative to flogging through the whole list at Annex B, Department by Department. It may help, however, to put the proposed cuts listed in Annex B in the context of the expenditure proposed. You will find that the PESC Report does this, in a little table at the head of each chapter (for example, that for the Defence programme on page 16) but I give the key figures below.

11. One of the main problems will be that the Chief Secretary's list contains no fat to allow Cabinet a choice (though departmental Ministers have some freedom within the total cuts for their Departments). You might like to emphasise that, if Cabinet jibs at particular cuts and if the Departmental Minister has no alternatives to offer volunteers for extra cuts will be needed at this meeting. Thereafter I suggest your tactics should be to try to 'tick off' each suggested Departmental batch of cuts as a whole: only if a Minister demurs should you go down to the level of the individual items. You need not give any Minister (except perhaps the Secretary of State for Education, because he has circulated his own paper) an opportunity for an extended argument: so far as possible, you might aim to remit any item which cannot be agreed to the spending Minister and the Chief Secretary to pursue bilaterally. Cabinet discussion will be useful only to the extent that it gives a 'steer' to these bilaterals, either by suggesting to a spending Minister that he is asking too much, or to the Chief Secretary that he is pressing his luck too far.

12. You might also emphasise, as you have done on previous occasions, that the choice of cuts is illustrative. If any Minister feels that he can achieve the same total in some different way, it is open to him to suggest this to the Chief Secretary. But it is important that his alternative should be a viable one; for

example, the Secretary of State for the Environment had £70 million 'up his sleeve' at E(DL) the other day, which the Committee were disposed to accept: on investigation, it proved illusory, as he will have to report when E(DL) returns to this subject. This is the sort of thing you will want to avoid happening at Cabinet.

13. One final complication is the present state of the legislative programme. The Treasury believe that only one of the proposed cuts requires new major legislation for which there is no provision in the authorised programme. (This is the Education package; and even then, as suggested below, a bit of 'tacking' may be possible.) But several of the proposals, not separately identified in the list, require additional clauses to be tacked on to programme Bills, thus taking up more Parliamentary time. I think you should give the Leader of the House a chance to comment on this early in the proceedings.

14. One further problem concerns the interaction of this exercise with the quite separate exercise on Civil Service manpower which the Lord President is due to bring to Cabinet in September. (It is a pity that Treasury and CSD Ministers were not able to agree on compatible timetables.) The result is that the Chief Secretary's proposals assumes cuts in manpower which Cabinet has not yet decided. (There is £150 million taken into account in paragraph 13 of the Chief Secretary's paper: taken together with £350 million from nationalised industries it makes up the £0.5 billion mentioned there. The rest is hidden away in the 3 per cent overall cuts, the bulk of which would in many cases fall on manpower.) If approved, these cuts effectively pre-empt later decisions on manpower. This may not matter much. CSD tell us that their options, when worked out, are likely to go even further than the Chief Secretary's proposals. But it would be unwise to count on this for any further savings. They will in practice be swept up in the general 3 per cent (or 4 per cent) reductions proposed by the Chief Secretary.

15. On the individual programmes, the following points arise:

(a) Defence (Proposed cut £300 million on a baseline of £8,177: additional bid of £88 million - no legislation needed).

Paragraph 8 above deals with the problem here.

(b) FCO(ODA) (Cuts of £132 million on a baseline of £955 million; and compared to a likely outturn of £847 million in 1979-80: additional bid £2 million. No legislation needed).

The only argument here is whether the ODA programme should be squeezed to accommodate the 'first window' of the common fund, or whether this should be accommodated instead within the Department of Trade programme. This is not just an accounting problem: the Department which has to find the expenditure has to squeeze its other commitments proportionately.

(c) FCO (Other) (Cut of £28 million on baseline of £308 million; and compared also to £308 million in 1979-80. No legislation needed). Any real fight here will be over the level of overseas representation. Few other Ministers will be interested: a clear case for bilaterals.

(d) EEC Budget (A net addition of £236 million on a baseline of £858 million; the 1979-80 outturn is likely to be £800 million. No legislation). There is no point in discussing this item: it depends entirely on our success in the negotiations about the Budget.

(e) Agriculture (A cut of £43 million net on a programme of £1,007 million; £1,036 million in 1979-80. No legislation. Some Brussels difficulties).

The main argument here will be whether the MAFF programmes should be squeezed further to accommodate the extra cost of the Thames barrier and of the Defence food stockpile - neither of which is directly relevant to their Departmental objectives. Mr. Walker registered this point at the original Cabinet discussion, but no decision was taken then. (He thinks, wrongly, that he was given exemption).

Mr Walker has written to you (Flag B) asking that this be charged to the Contingency reserve for 1979/80. The Chief Secretary has said "no". R.

(f) Forestry Commission (A cut of £5 million on a baseline of £62 million; and compared to £64 million in 1979-80. No legislation for this modified option - legislation needed for the original £10 million bid). The Secretary of State for Scotland will want a word. But this could be remitted for bilaterals.

(g) Industry (Proposed cuts £187 million on a baseline of £1, 182 million; and a likely outturn of £1, 004 million in 1979-80: secondary legislation already in hand). These cuts are already reduced from the original bid shown in the report, to take account of E Committee decisions on Regional Policy last week. (They are otherwise broadly agreed with the Secretary of State: but his NEB proposals, which were discussed in E(EA) on Wednesday, may eat into these savings.

(h) Trade (Cut of £20 million on baseline of £199 million; and compared to £191 million in 1979-80. No serious problems.

(i) ECGD (An add-back of £170 million net, on a programme of -£36 million; and an outturn of -£178 million in 1979-80. The recalculation compared with the White Paper figures, in a demand-responsive programme. The option of additional foreign currency financing is being pursued to the maximum extent: the option of increasing sterling financing runs counter to monetary policy. Neither would help in the short term.

(j) Employment (Cut of £513 million on programme of £1, 648 million; compared to £1, 096 million in 1979-80). Apart from the cuts already decided, and the abolition of the short-time working scheme, most of this is manpower: and will come up again when the Lord President's paper surfaces in September. It depends on discussions with the MSC. The Secretary of State himself is reasonably content. Remit for bilaterals? The real issue here is whether the Chief Secretary can safely take credit for these savings at this stage.

(k) Energy (Saving of £24 million on programme of £319 million; compared to £309 million in 1979-80). This is the dog that did not bark in the night. The real energy problem is on coal: for convenience, the whole of the support for the coal industry has been counted in with the nationalised industry financing programmes, which come later in the meeting. No real problems expected over the rest: remit for bilaterals if necessary. But you will want to note that this involves

i.e. grants + loans
R.

foregoing additional bids for Nuclear R & D for £17 million and in the Gas Centrifuge of £15 million which in present circumstances may be shortsighted.

(l) Transport (Cut of £305 million on a programme of £2,671 million; compared to £1,675 million in 1979-80): legislation needed only on the VED point). This looks straight forward and need be remitted for bilateral only if Mr. Fowler presses hard.

(m) DOE (Housing) (Cuts of £1,264 million on programme of £5,266 million; 1979-80 outturn £4,592 million. This is much the biggest chunk of the Chief Secretary's proposed savings, and one of the most difficult.) You might like to read chapter 7 of the Report by Officials (pages 48-51). The really difficult problem is the speed of rent increases next year. If Mr. Heseltine will not commit himself, remit for bilaterals - which should include Mr. Younger and Mr. Edwards. Housing policy in all three countries must march together.

(n) DOE (PSA) (Cut of £54 million on programme of £386 million; and compared to £343 million in 1979-80). Some extra savings may follow from the Review of the Dispersal Programme (being considered by E next week) and of Disposals of Surplus land. The savings listed here assume that the Dispersal programme would be largely stopped.

(o) DOE (Others) (A cut of £285 million on a programme of £2,726 million; and compared to a likely outturn in 1979-80 of £2,529 million). Part of the cost falls on the water authorities: and another option, not explored here, is to put up their prices, treating them more like nationalised industries. There is a strong case for this, provided that they are not allowed to pass on all increases automatically to customers. There should be no problem over Community land. But the cuts seem the best course available: agree if possible on the spot, and remit for bilaterals (to include Scotland and Wales) if pressed.

(p) Home Office (A largely exempt area: a net add-back of £10 million on a programme of £2, 126 million: £2, 085 in 1979-80.) One proposed saving (£2 million on the abolition of the Equal Opportunities Commission) is disproportionately expensive in legislative time, however desirable on other grounds. You might question whether the Treasury has not been unduly lenient to the fire service, where there is a great deal of overmanning and suspected inefficiency. It largely escapes cuts, and is not part of the 'law and order' programme as such.

(q) Lord Chancellor's Department. Mainly demand related: a cut of £4 million on a programme of £154 million; £141 million in 1979-80: the Lord Chancellor may however resist this.

(r) Education and Science (Cut of £860 million on a programme of £8, 395 million; and compared to £8, 258 million in 1979-80). This is the other main problem area, and you will want to let Mr. Carlisle speak to his paper C(79) 29 in which he proposes cuts of £250 million against the £860 million in the Chief Secretary's paper. One reason for this is his fear that otherwise education will suffer double cuts - by central Government and then by local authorities who impose their own priorities. This seems unlikely given the strong pressures to which local authorities will be subjected by the education lobbies. The politics are obviously very difficult. So too is the difficulty for Cabinet in knowing how far the list of cuts in the Chief Secretary's paper represents a sensible balancing of damage at the margins e.g. would a bigger cut in school meals provision be preferable to say the introduction of fees for 16-18 year olds? It may be that the only sensible course is for Cabinet to set a target for cuts and ask the Secretary of State for Education and the Chief Secretary to come forward with options from which Cabinet can choose. In any event legislation is likely to be needed. The easiest course might be to add it to the Education Bill due to be considered by Home Affairs Committee this week, though this would probably involve some delay. The present Bill is due for introduction in November.

(s) Arts and Libraries (Cuts of £33 million on programme of £371 million; and compared to £364 million in 1979-80.) Mr. St. John Stevas' expenditure has now been segregated into a separate programme, and he is free to choose where to make his own cuts. (Last time, he objected strongly to being unilaterally cut back by Mr. Carlisle.) But, although he has relatively little room for manoeuvre, he will have to take his share of the general misery.

(t) DHSS (Health) (Cut of £85 million on programme of £6,671 million; and compared to £6,478 million in 1979-80). This again is largely exempt area: of the proposals here, the most difficult is the increase in the prescription charge. A Cabinet steer would be useful: minor points could be remitted for bilaterals.

(u) DHSS (Personal Social Services) (Cuts of £118 million on a programme of £1,184 million; and compared to £1,147 million in 1979-80). The unspecified 'other' cuts reduced the levels of expenditure below that necessary to meet demographic growth - i.e. employ a cut in the real level of services.

(v) DHSS (Social Security) (Cut of £253 million net on programme of £19,477 million; and compared with a likely outturn of £19,056 million in 1979-80.) Paragraph 22 of his paper explains that the Chief Secretary has reduced his original bids (involving cuts in the real level of pensions) to a more realistic level. His suggestion involves deferring the more dramatic savings until the autumn, so that they would work through 1981-82 and later years. He also suggests deferring a decision on the November 1980 Child Benefit up-rating which would remain as a potential claim on the Contingency Reserve. With these changes, there is a chance that his proposals would be accepted by the Secretary of State for Social Services.

(w) HMSO (Cut of £10 million on baseline on £100 million; and £99 million in 1979-80.) No-one is likely to fight for this programme. But it means extracting from every Minister a promise that he will not make unnecessary demands on HMSO. There is a lot to be said for putting HMSO on to a repayment basis, and this is already under study.

(x) CSD (Civil Superannuation) No change. It is assumed that the inflation-proof pension arrangements cannot be tackled in the present timescale: even if they were, there would be a compensating addition to the wage bill so that the short term effect would be small or negative.

(y) COI (Cut of £3 million on programme of £28 million; £32 million in 1979-80). The same points apply here as for HMSO. But the possibility of moving to a repayment basis is not under study: perhaps it should be?

(z) Scotland, Wales and Northern Ireland. These are, for Scotland and Wales, pro rata cuts, or changes broadly in line with what is proposed for English Departments. Both Secretaries of State will no doubt complain that they should be shielded in some degree. But the major decisions having been taken (notably on Regional Policy) you may wish to insist that they should take their share. Northern Ireland is slightly different: the Secretary of State has circulated separate papers to OD about policy in Northern Ireland generally, stressing the inter-relation between economics/social, political and security problems. It is not yet clear whether he will argue for preferential treatment in public expenditure terms on this score.

16. At this point, I am afraid you must turn to the nationalised industry paper (C(79) 28). I doubt if you need a separate introduction from the Chief Secretary, but the Secretary of State for Industry will have presided over preliminary discussion in E(EA) and may want to report this briefly. There are eleven options listed in Table 3 on page 6 of the paper. I think you should work through these for 1980-81.

(i) Coal. There has been a preliminary discussion in E(EA) of the Secretary of State for Energy's proposals on coal, and he will be bringing a further paper to E next week. The £55 million will be hard to achieve. The Chief Secretary suggests, illustratively, that the cut might fall on investment. Some Ministers felt this was short-sighted in the present energy situation, and would also make it more difficult to get union agreement to closures. The alternative is to tackle prices. E(EA) did not discuss the scope for further increases. There must be doubt whether NCB is really pricing up to the limit set by the recent OPEC oil price increase.

(ii) BNOC. Irrespective of what is done about disposals, cuts could be made here which would not damage existing commitments; they would mainly come from dropping provision for new farm-ins.

(iii) Gas. There are two alternative options suggested here. The difficulty lies, as with all these major energy industries, in pricing. There is no doubt that gas could stand a steep increase in prices, and that if necessary their profits could be creamed off by a special tax. The question is whether Ministers can stand the political impact on the RPI. You were reluctant to face this in the current year, coming on top of the Budget changes. Is it any more palatable in 1980-81? The sums involved are very large, and potentially less painful than some of the other economies to be sought. E(EA) felt strongly that some increase in gas prices was now justified, and the Secretary of State for Energy did not dissent; they did not decide between course a. and b.

(iv) Electricity. These figures assume that electricity will move to economic prices over the period. This could be accelerated. However, the suggestion here is that the industry should be asked for unspecified savings of £50 million: it would then be for the industry to decide whether to carry any of this on prices. But the industry would face large increases in its coal costs, and very probably on its oil costs as well. Anything more on top of this might be difficult to defend.

(v) Scottish Electricity Board. These will follow from what is decided above. The Scottish Minister at E(EA) reserved his position on this: remit for bilateral discussion, unless the Secretary of State can be persuaded at Cabinet.

(vi) Transport Industries. All agreed at E(EA). Miscellaneous savings of £20 million are assumed: the additional effect on prices is negligible, but the underlying assumption is already one of quite large price increases this year and next. The scope for changes in NBC and NFC, pending any disposals, is relatively small. BTDB is similarly small. BWB has been listed under this heading, although technically it is the responsibility of the Secretary of State for the Environment.

(vii) Airways. A cut of £40 million here, again in anticipation of any disposals, means reducing expenditure on aircraft - in practice, deferring six Tristars. The Secretary of State for Trade was not present at E(EA).

(viii) Airports. This should be relatively straightforward: it involves increasing charges to airlines.

(ix) Post Office. The proposal here would add, if Ministers agreed, the preferred option, to the next round of tariff increases and/or savings on current account. But since the paper was prepared the Post Office have reported very large additional requirements. These are being studied urgently: remit for bilateral discussion.

(x) Steel and Shipbuilders. British Shipbuilders' plans were considered in E(EA) on Wednesday. Of the total savings of £105 million in 1980-81, £25 million would come from shipbuilders and the remainder from steel. The savings on shipbuilders should be attainable. Steel depends more on the progress made towards viability, and in particular on non-interference in the closure programme.

(xi) British Aerospace. This will be a difficult decision - to cancel the BA 146. However, the market for the aircraft is small, especially if it is confined to a civil version and it was always the most speculative of the BAe's ventures. E(EA) merely noted this possibility, and the Secretary of State will want to consider the proposal. For bilateral discussion, as with the main programmes, you may be able to secure agreement to some of these on the spot: others will have to be remitted for bilateral discussion.

17. At this stage, you will have covered the whole ground, apart from the disposal programme (E(DL), under the Chancellor, will be looking at next year's plans next week). The Chief Secretary's paper assumes that a further £0.5 billion would be found from this source: discussion in E(DL) last week will have shown you that this will be difficult but, provided the airways deal goes through, should not be impossible.

18. You may also want to look sideways at the size of the Contingency Reserve, which it is proposed to cut from £1,540 million to £750 million. Given that one main claimant on this will be the November 1980 up-rating of Child Benefit, this is an extremely narrow margin to me, at this very early stage before the year begins. Are Ministers content to sail so close to the wind?

19. You will then want to return to the question of timetable. You will now have commissioned a series of bilateral discussions, and the Chief Secretary will have his work cut out to complete these before Cabinet on 26th July. You may want at this stage to consider whether there is enough common ground to justify the drafting of a statement, in fairly general terms, about the Government's proposals for cutting public expenditure, which would serve as a background to the announcement which the Secretary of State for the Environment wants to make about local authorities' spending. If this can be done, then you might invite the Chief Secretary to circulate the draft, early next week, to which the Cabinet would if necessary return very briefly on 19th July (noting the Secretary of State for Defence will not be there that day). It can then take this remaining substantive decision on 26th July. This will allow a statement to be made on, say, Monday, 23rd July, comfortably before the House rises.

20. If you accept this suggestion, you may want the Chief Secretary to consider presentation. There are probably two points to make in any statement:-

(i) The main impact of public expenditure cuts is bound to be negative. They have to be seen in the context of a long programme, extending over and beyond the life of this Parliament, with very clear and positive economic objectives: growth, enterprise, etc.

(ii) One reason why the cuts seem so severe in the short term is that they fall on programmes which were planned to expand much faster than the growth of resources would allow. The cuts are therefore economically necessary, and are not the result of doctrinaire policies randomly applied.

21. There is one other minor point, in paragraphs 25 and 26 of the Chief Secretary's paper, about a proposed study of end-year flexibility. This is not strictly related to the present discussion, but the suggestion for a study, without any commitment, and on the conditions laid down by the Chief Secretary, should be reasonably safe. But you might like to ask who is pressing for this study (it is of course those who expect to be able to spend more than they otherwise would); and what the effects on confidence would be of an apparent loosening of cash control.

CONCLUSIONS

22. I think you might be able to record conclusions in the following form:-

(i) To note the Chancellor's analysis of the economic prospects, and the need to seek substantial reductions in public expenditure accordingly.

(ii) To endorse the target of £6.5 billion [or any modified figures] proposed by the Chief Secretary for 1980-81.

(iii) To note that £0.5 million of this will be found by way of disposals, and to invite the Chancellor of the Exchequer and E(DL) to agree a programme which will achieve this target.

(iv) To agree as many as possible of the specific cuts proposed by the Chief Secretary. (I shall be keeping a list as we go along).

(v) To invite the Chief Secretary to pursue, with the spending Ministers concerned, those proposals on which it is not possible to reach agreement at the meeting.

(vi) To invite the Ministers concerned to make policy proposals as necessary to the relevant committees, for giving legislative effect to the Cabinet decisions, by adding clauses to Bills in the present programme - noting that this may in some cases require additional Parliamentary time.

(vii) To invite the Chief Secretary to circulate the text of a possible general statement about the Government's approach to public expenditure, in the light of the decisions so far taken by the Cabinet, which could be discussed by Cabinet on 19th July and made before the Recess, as background to an announcement about local authorities expenditure.

(viii) To invite the Secretary of State for the Environment to circulate the text of a parallel statement about local authority expenditure.

(ix) To invite the Chief Secretary to make arrangements for a review of end-year flexibility on lines suggested in paragraphs 25 and 26 of his paper.

(x) Agree to meet again on [? 26th July] to consider the Chief Secretary's report on his bilateral discussions with spending Ministers and to take substantive decisions for the remainder of 1980-81 programmes then.

(xi) Agree to resume its discussion of public expenditure in later years in the autumn.

John Hunt

11th July, 1979

ANNEX

CHIEF SECRETARY'S 1980/81 EXPENDITURE PROPOSALS

	(a) Change from Cmnd 7439	(b) Change from 1979/80 after Budget cuts	(c) % change from Cmnd 7439	(d) % change from 1979 80 after Budget cu
Defence	-300*	-150	- 3.7	- 1.9
FCO (ODA)	-132	- 24	-13.8	- 2.8
FCO (other)	- 28	- 28	- 9.1	- 9.1
EEC Budget	+236	+294	+27.5	+36.8
MAFF etc	- 43	- 72	- 4.3	- 7.0
Forestry	- 5	- 7	- 8.1	-10.9
Industry	-187	- 9	-15.8	- 0.9
Trade	- 20	- 12	-10.1	- 6.3
ECGD	+170	+312	‡	‡
Employment	-513	+ 39	-31.1	+ 3.6
Energy	- 24	- 14	- 7.5	- 4.5
Transport	-305	-309	-11.4	-11.6
DOE (housing)	-1,264	-590	-24.0	-12.8
DOE (PSA)	- 54	- 11	-14.0	- 3.2
DOE (other)	-285	- 88	-10.5	- 3.5
Home Office	+ 10	+ 51	+ 0.5	+ 2.4
Lord Chancellor	- 4	+ 9	- 2.6	+ 6.4
Education and Science	-860	-723	-10.2	- 8.8
Arts and Libraries	- 33	- 26	- 8.9	- 7.1
DHSS (Health)	- 85	+108	- 1.3	+ 1.7
DHSS (Personal social services)	-118	- 81	-10.0	- 7.1
DHSS (social security)	-253	+168	- 1.3	+ 0.9
HMSO	- 10	- 9	-10.0	- 9.1
CSD (civil superannuation)	-	+ 29	-	+ 6.7
COI	- 3	- 7	-10.7	-21.9
Scottish Office (excluding DAFS)	-410	-264	-10.6	- 7.1
Welsh Office (excluding WOAD)	-130	- 51	-11.0	- 4.6
Northern Ireland	-160	-142	- 7.9	- 7.1
TOTAL	-4,810	-1,607	- 6.7	- 2.3

NOTES: Col.(a) gives the reductions (additions) to 80/81 figures in Cmnd.7439 revalued (as in Annex A to C(79)26).
Col.(b) shows these reductions (additions) for 80/81 as compared with 1979/80 figures in Cmnd 7439 revalued, after adjustment for changes made by previous Government and for Budget cuts.
Col.(c) shows (a) as a percentage of Cmnd 7439 (revalued) 80/81 totals
Col.(d) shows (b) as a percentage of Cmnd 7439 (revalued) 79/80 totals after adjustment for changes by previous Government and Budget cuts.

* This figure takes no account of any concessions the Prime Minister may have granted for 1979/80

‡ meaningful percentage changes cannot be derived