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CC(82) 41st
Conclusions

COPY NO 79

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 9 SEPTEMBER 1982

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Francis Pym MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon James Prior MP
Secretary of State for Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Baroness Young
Lord Frivy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Lord Cockfield
Secretary of State for Trade

SECRET

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 3 and 4)
Mr A D S Goodall (Items 1 and 2)
Mr M S Buckley (Items 3 and 4)
Mr D R C Durie (Items 1 and 2)

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1. THE FOREIGN AND COMMONWEALTH SECRETARY said that the new initiative by the President of the United States had radically changed the scene in the Middle East and had brought the position of the United States Government much closer to that of the United Kingdom and her European allies. It took full account of the need to guarantee Israel's security but also of the Palestinians' rights. It was an important step forward to which the United Kingdom was giving full support. The Israeli Prime Minister, Mr Begin, was predictably opposed to it, but opinion in Israel was divided and many influential Israelis believed that it was a move in the right direction. The summit meeting of Arab Heads of State at Fez had meanwhile produced a plan of their own. Full details were not yet available. In the Lebanon tension remained high. It remained the United States Government's objective to obtain the withdrawal of all foreign forces from the country. It appeared that Israel was ready to withdraw her forces, provided that Syria did the same: at the moment there were still 35,000 Syrian troops in the Bekaa Valley. In due course there would have to be a major reconstruction programme for the Lebanon. International help would be needed, and Western countries would be looked to for a significant contribution.

The Cabinet -

1. Took note.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the dispute between the United States and certain European Governments over the Siberian gas pipeline had got worse. He had explained the European position to the United States Secretary of State, Mr Shultz, at the end of July, and had stressed that the right way for the United States to proceed would have been after reaching agreement with its European allies. Since then he had been trying to promote a meeting between Mr Shultz and the four European Foreign Ministers concerned in order to try to find a solution. The Governments of the Federal Republic of Germany and Italy were strongly in favour of such a meeting and Mr Shultz had been willing to come to Europe to take part. Unfortunately however the French Government, although agreeing to a meeting in principle, were preventing it from taking place in the near future. It had been clear from a recent meeting of senior officials of the four European countries concerned that the French were isolated on this issue; but they were not to be moved from their position, which appeared to derive from President Mitterrand himself. There was consequently no prospect now of a meeting of the five Foreign Ministers until they were in New York for the United Nations General Assembly later in September. Meanwhile President Reagan appeared equally determined to obstruct construction of the pipeline. He apparently saw

the American measures primarily as a means of bringing pressure to bear on the Soviet Union over Poland; but other members of his Administration put more stress on the need to constrain the Soviet economy as an end in itself. The Soviet ship at present loading the turbines manufactured by John Brown Engineering (JBE) would sail from the Clyde later that day, and United States retaliatory action would follow. Mr Shultz had given assurances that this would be minimal: it would nevertheless have a negative impact on relations between the United Kingdom and the United States.

THE SECRETARY OF STATE FOR TRADE said that the United States denial order against JBE was expected to be in the same terms as the denial order against the Italian company involved, which had been more restricted than originally feared. In JBE's case it was likely to be confined to the supply of oil and gas equipment; this, in the company's preliminary view, would not seriously damage the main part of their business. One of the French companies concerned, Dresser, had already started legal action in the United States against the denial order: JBE would consider whether to initiate legal action when the terms of the denial order against them were known. Meanwhile, there were two other British companies in respect of which it might become necessary to issue directives under the Protection of Trading and Investment Act. One was a wholly-owned subsidiary of a United States firm which had been instructed by the parent company in the United States to discontinue work on an important contract for fire-fighting equipment, which could involve the loss of 700 jobs. A smaller firm in Scotland doing sub-contracting work for a French company had 20 jobs at risk. It was not his intention to issue the directives until after the American denial order against JBE had been made so as to avoid any impression of provocation. It might eventually become necessary to issue a general direction under the Protection of Trading and Investment Act, but there was no need for this yet. He would be consulting JBE about future action.

THE CHANCELLOR OF THE EXCHEQUER said that he and some of his European colleagues had discussed the matter with the United States Secretary of the Treasury, Mr Regan, at the recent meeting of the International Monetary Fund in Toronto. Mr Regan accepted responsibility for the United States measures, but was clearly anxious to find a way out of the problems these had created with the allies, and had emphasised that any United States action against European firms would be minimal. He had made it clear that any package of measures to tighten trade and restrict technology transfer to the Soviet Union which the European Governments could offer would make it easier for the United States Administration to meet European concerns; but the package would have to be more than purely cosmetic. The French Finance Minister, Monsieur Delors, had seemed responsive to this idea.

In discussion it was pointed out that there was growing unease in commercial circles in the United States about the Administration's measures and a conviction that the President must be persuaded to abandon them; the Prime Minister was believed to be better placed than her European colleagues to do this. It seemed clear that the United States Administration was anxious to get itself off the hook and that retaliatory action against European companies would be kept to a minimum. Other British firms might nevertheless be at risk.

THE PRIME MINISTER, summing up the discussion, said that it was regrettable that the meeting of the five Foreign Ministers which the Foreign and Commonwealth Secretary had been seeking to promote had been prevented from taking place. Efforts to arrange it should continue with a view to reaching agreement on a package of measures which might go some way to meet American concerns without damaging European interests. In her conversation with him on 8 September, the United States Defense Secretary, Mr Weinberger, had confirmed that the Administration were looking for a way out of the problem, and had said that President Reagan did not want to cause additional unemployment. She had suggested to Mr Weinberger that the President's concern not to increase unemployment in Europe might provide him with a satisfactory pretext in domestic political terms for lifting the sanctions.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary, in consultation with the Secretary of State for Trade, to maintain his efforts to achieve a solution to the problem acceptable both to the United States and to the European Governments concerned.

THE CHANCELLOR OF THE EXCHEQUER said that the annual meetings of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) in Toronto had been useful. Participants had discussed the state of the international economy and the current threats to the international banking system. There had been no tendency to panic but no complacency either. Satisfactory progress had been made towards increasing IMF quotas. On indebtedness there were various anxieties. A decision on rescheduling Poland's debts was held up pending moves by the Polish Government towards greater political liberalisation. Other Eastern European countries were in serious difficulties; but Hungary had now joined the IMF. Latin America was another area of serious concern. In Mexico, where the exposure of the United States banks was particularly heavy, an IMF programme was urgently needed. The Bank for International Settlements and the Federal Reserve Bank of New York had put in hand bridging arrangements, but it

remained to be seen whether the Mexican Government would be able to meet the requirements. The recent nationalisation of all private banks in Mexico had been unhelpful, but the Mexican Government's performance should improve as the date of President Lopez Portillo's departure from office approached. The Mexican Finance Minister was fully alive to the need for an IMF programme and would be seeking to move his Government in this direction. The Governor of the Bank of England was playing an active role.

THE PRIME MINISTER, summing up the discussion, noted that existing contracts for British firms in Mexico were going ahead. It was important that great caution should be exercised over entering into any new contracts: the shipping contract with Mexico to which publicity had recently been given in the press should be investigated from this point of view. The Export Credits Guarantee Department should continue to pursue a very restrictive policy in relation to Mexico and all countries which were in financial difficulties.

The Cabinet -

3. Invited the Secretary of State for Trade, in consultation with the Chancellor of the Exchequer, to examine the position in regard to the recently announced shipping contract and other British contracts with Mexico which might be at risk; and to review the present level of Export Credits Guarantee Department exposure worldwide.

THE CHANCELLOR OF THE EXCHEQUER reported on discussions that had taken place in the margins of the IMF/IBRD meetings on the termination of financial restrictions between Argentina and the United Kingdom. The discussion of this subject is separately recorded.

The Cabinet -

4. Took note.

The United Kingdom Strategic Deterrent
 Previous reference: HC(82) 10th Conclusions, minute 1

THE SECRETARY OF STATE FOR DEFENCE recalled that the decision to adopt the Trident D5 missile had envisaged the construction of a large new depot at Coulport on Loch Long to provide facilities for the periodic refurbishment of the missiles. The depot, which would have been expensive to construct, would have enabled the present level of employment at Coulport to have remained at 1,500 throughout the life of Trident. But the decision to opt for the D5 version of the Trident missile involved a high degree of commonality with the United States and meant that it would be both possible and convenient for the processing to be carried out at the American Trident depot at King's Bay in the United States rather than at a separate British depot in Scotland. Agreement on this had now been reached with the United States Government, and he would be announcing it later that day. This would lead to savings (not yet fully quantified) of some hundreds of millions of pounds in the defence budget, which would be available to strengthen the United Kingdom's conventional forces. The United Kingdom would pay for the servicing of the missiles at the same rate as the United States Navy; and a range of buildings for specifically British use would need to be constructed at King's Bay at a probable cost to the United Kingdom of about £30 million. In presenting the agreement to the public, he would be careful to make it clear that the independence of the British nuclear deterrent would be in no way affected. Indeed, the degree of independence would be significantly higher with Trident than with Polaris, since three out of the four submarines would be for most of the time in the operational cycle, and the missiles would remain in the submarines for between seven and eight years at a time. The warheads would be stored in Scotland.

THE PRIME MINISTER, summing up a short discussion, said that the new arrangements would have the additional advantage of pre-empting the environmentalist agitation in Scotland against the construction of the servicing depot. In announcing the agreement it would be preferable not to refer to the possibility of the consequent savings being allocated to the strengthening of conventional forces, since this could encourage opponents of the nuclear programme to argue that, without Trident, the entire cost of the programme could be allocated to conventional defence.

The Cabinet -

5. Took note.

COMMUNITY
AFFAIRS---
European
Political
Situation

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Community affairs should be seen against the background of recent political developments in the member countries. In the Netherlands there had been an inconclusive general election the previous day. The Danish Government would fall the following day, and a new Administration was expected immediately thereafter. In the Federal Republic of Germany there was now a larger possibility of a change in the Federal Government coalition; the situation would be clearer after Land elections in Hesse on 26 September.

European
Community
BudgetPrevious
Reference:
CC(82) 29th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had started a series of bilateral meetings on the European Community budget problem. In these he was stressing the importance of settling details of the 1982 refund for the United Kingdom at the Foreign Affairs Council on 20-21 September. Although the United Kingdom had majority support for its position on 1982 refunds, including strong support from the Federal Republic of Germany, there were still problems to be resolved with some member countries. He was also urging the need for a satisfactory settlement for 1983 and beyond. This would not prove at all easy.

THE CHANCELLOR OF THE EXCHEQUER said that he had spoken to his Dutch, French and Italian colleagues asking them to draw their Foreign Ministers' attention to the importance of reaching agreement on the 1982 refunds for the United Kingdom in the Foreign Affairs Council of 20-21 September. He had also discussed the longer-term settlement. The French Finance Minister appeared to be showing greater interest in the ideas which the Chancellor of the Exchequer had developed in a speech in The Hague in 1981. He intended to pursue this subject further with the French and Dutch Finance Ministers.

Poultry

Previous
Reference:
CC(82) 39th
Conclusions,
Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that on poultry imports, following the European Court of Justice's adverse ruling on the United Kingdom's import restrictions to prevent the spread of Newcastle Disease, the Commission had now formally asked the United Kingdom to agree by 16 September to introduce new regulations by 20 September. He intended that the United Kingdom should reply with its own counter-proposals; if the Commission disagreed with them, he thought that the United Kingdom regulations ought probably to be implemented and defended, if necessary, before the European Court of Justice. If introduced, the regulations would permit limited imports of poultry into the United Kingdom. He also mentioned that the French had introduced new health testing requirements for sheepmeat to which two British consignments of lamb had

been subjected: these tests were delaying deliveries of lamb to the market, which was no doubt the purpose.

Common
Fisheries
Policy

Previous
Reference:
CC(82) 39th
Conclusions,
Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that he had received a message from the Danish authorities to ask if the United Kingdom would object to a postponement of the Fisheries Council which had been due to take place on 21 September. The likely new Danish Minister of Fisheries had no previous experience of the problem and would need time to familiarise himself with it. In the circumstances a postponement seemed reasonable. Nevertheless it was important to maintain the political pressure on the Danes to reach a settlement; the Prime Minister and the Foreign and Commonwealth Secretary could usefully use to this end their first contacts with the new Danish Administration.

Steel

Previous
Reference:
CC(82) 40th
Conclusions,
Minute 3

THE SECRETARY OF STATE FOR INDUSTRY said that steel imports into the United Kingdom were rising sharply both from Community and non-Community sources. This appeared to be a result of the United States restrictions. Although demand on the United Kingdom market was stable, neither the price agreements nor the voluntary restraint agreements appeared to be holding. The loss of market share was having adverse consequences for the British Steel Corporation, and the United Kingdom would need to go back to the Commission very shortly. On exports to the United States, where the British Steel Corporation faced duties of 20 per cent, their exports were largely being replaced by exports from Germany, the Netherlands and Luxembourg who faced considerably lower duties. Thus the American anti-dumping action was not proving effective in improving the situation of the United States steel industry. The agreement which had been negotiated between the United States authorities and the European Commission would provide the only effective remedy, even although it had already been rejected by the American steel industry. Negotiations were continuing on a separate agreement on pipes and tubes which, if successful, might enable the United States Administration to put pressure on the United States steel industry to accept the earlier agreement. Even if this failed it was possible that the United States Administration might eventually use Section 301 of their Trade Act to impose import quotas to replace the present duties. As a result of the present loss of orders the British Steel Corporation had already begun to lay people off, but they could make no significant savings unless a major works was closed. Even if agreement with the United States Administration was reached, there could still be difficulties about the share between member states of the Community's export quotas. The Germans, who had been largely

responsible for the problem by their aggressive marketing, were arguing that they should not bear a full share of the restrictions since they had not been found at fault on price.

THE PRIME MINISTER, summing up the discussion, said that it was important to speed up the process of reaching acceptable solutions.

The Cabinet -

Took note.

3. THE SECRETARY OF STATE FOR SOCIAL SERVICES reported on the current pay dispute in the National Health Service. The Cabinet's discussion and the conclusions reached are recorded separately.

INDUSTRIAL
AFFAIRS

National
Health Service
Pay Dispute

Previous
reference:
C(82) 40th
Conclusions,
minute 4

LONG-TERM
PUBLIC
EXPENDITURE

4. The Cabinet considered a note by the Chancellor of the Exchequer (C(82) 30) discussing the prospects for public expenditure, taxation and borrowing over the period to 1990-91; and a note by the Secretary of the Cabinet (C(82) 32), to which was attached a note by Treasury officials setting out in more detail the prospects for public expenditure over the same period. They also had before them a memorandum by the Secretary of State for Defence (C(82) 33) about the level of defence expenditure.

The Cabinet's discussion and conclusions reached are recorded separately.

Cabinet Office

9 September 1982

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Sir R. Armstrong
(B/V)

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LIMITED CIRCULATION ANNEX

CC(82) 41st Conclusions, Minute 1

Thursday, 9 September 1982 at 10.30 am

FOREIGN
AFFAIRS

Argentina

THE CHANCELLOR OF THE EXCHEQUER reported on discussions that had taken place in the margins of the International Monetary Fund/ International Bank for Reconstruction and Development meetings on the termination of financial restrictions between Argentina and the United Kingdom. Argentina needed such an agreement to clear the way for a re-scheduling of her debts: but there had been a risk that Argentina might seek to exclude British banks from any re-scheduling agreement or declare a default and seek to put the blame on the British financial restrictions. He had had no direct contacts with the Argentines in Toronto, but the United States delegation had acted as intermediary and with American help the Argentines had been brought to agree a memorandum providing for the mutual lifting of financial restrictions, the effective date to be subject to confirmation by exchange of telexes between the central banks. It had not been possible, as he had hoped, to cover trade restrictions as well; and the Argentines had made it clear that air services (in which British Caledonian had an important interest) must remain outside the scope of the negotiations. The memorandum did, however, say that the Argentines would welcome the good offices of the United States in reaching an agreement on trade restrictions at the appropriate time. The understanding reached on financial restrictions was still precarious and it was important that it should not become public knowledge prematurely, especially since the Argentine Air Force remained opposed to any accommodation with the United Kingdom.

The Cabinet -

Took note.

Cabinet Office

15 September 1982

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 41st Conclusions, Minute 3

Thursday, 9 September 1982 at 10.30 am

THE SECRETARY OF STATE FOR SOCIAL SERVICES reported on the current pay dispute in the National Health Service (NHS).

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that industrial action resulting from the current pay dispute was affecting the NHS, but much less seriously than claims by the trade unions suggested: for example, only 13 out of 270 district hospitals in England had been reduced to providing emergency cover only; the position was broadly similar in Scotland and Wales, though perhaps a little worse in Northern Ireland. The trade unions therefore had some incentive to settle the dispute; and it would also be in the Government's interest to do so, provided that no concessions of substance were made. Public opinion wanted to see the dispute ended; and many employers outside the NHS were apprehensive of the likely effects of the sympathetic industrial action which some trade unions had called for Wednesday 22 September. It was, however, essential to maintain the Government's position that no additional funds could be made available for NHS pay in 1982-83. This was necessary not only on financial grounds but also to ensure that industrial action was not seen, at the beginning of the new pay round, to be rewarded. The unions might accept this position if presentational changes were made in the current offers of 6 to 7½ per cent. He was therefore considering a rearrangement of the money available, coupled with an offer of talks on longer-term arrangements for determining pay in the NHS. The aim would be to have such arrangements in place by April 1984. The question of NHS pay in 1983-84 might enter into discussion; but the implications for other public services and the Government's strategy on pay would need to be carefully considered.

THE PRIME MINISTER, summing up the discussion, said that it was clearly essential to maintain the position that no additional money could be made available for NHS pay in 1982-83. The Government's position was entirely reasonable; and she and other Ministers had found that when it was explained, with appropriate factual material, it readily commanded support. It was, however, necessary to do more to get the facts across

SECRET

INDUSTRIAL
AFFAIRSNational
Health Service
Pay DisputePrevious
Reference:
CC(82) 40th
Conclusions,
Minute 4

to public opinion generally. She had therefore asked the Secretary of State for Social Services to prepare, and circulate to the Cabinet, a small number of telling factual points bearing on NHS pay, staff numbers and standards of service, which could be used in public debate. Colleagues should use this material as often as possible and should take every opportunity of explaining, both privately and publicly, that the Cabinet wholeheartedly supported the stand taken by the Secretary of State for Social Services. They should also make it clear that it was for each individual employer to decide what action to take in respect of any of his employees who might take unlawful industrial action on 22 September.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited all Ministers to seek opportunities of clarifying the Government's position, both privately and publicly, on the lines indicated by the Prime Minister.

Cabinet Office

10 September 1982

Sir R. Armstrong
(BU)

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COPY NO 27

CABINET

LIMITED CIRCULATION ANNEX

CC(82) 41st Conclusions, Minute 4

Thursday, 9 September 1982 at 10.30 am

LONG-TERM
PUBLIC
EXPENDITURE

The Cabinet considered a note by the Chancellor of the Exchequer (C(82) 30) discussing the prospects for public expenditure, taxation and borrowing over the period to 1990-91; and a note by the Secretary of the Cabinet (C(82) 32), to which was attached a note by Treasury officials setting out in more detail the prospects for public expenditure over the same period. They also had before them a memorandum by the Secretary of State for Defence (C(82) 33) about the level of defence expenditure; and a note by the Secretary of the Cabinet (C(82) 31) covering a memorandum by the Central Policy Review Staff on public expenditure.

THE CHANCELLOR OF THE EXCHEQUER said that the Treasury papers before the Cabinet projected public expenditure, taxation and borrowing in 1990-91 on two illustrative economic scenarios. Scenario A was based on a rate of growth of the gross domestic product (GDP) averaging $2\frac{1}{2}$ per cent a year between 1980-81 and 1990-91; Scenario B was based on a rate of growth of GDP of $\frac{3}{4}$ per cent to 1985-86, then $\frac{1}{2}$ per cent to 1990-91. Scenario A implied roughly the same rate of economic growth as the average between 1945 and 1974. Bearing in mind recent economic experience and the effects on the world economy of drastic changes in oil prices, it was probably over-optimistic. It was reasonable to hope that Scenario B would prove pessimistic; but it was only prudent to consider it. Under Scenario A, public expenditure would be about 40 per cent of GDP in 1990-91, a little less than the proportion in 1979-80; if tax rates were at their current level in real terms, the public sector borrowing requirement (PSBR) would be about 2 per cent of GDP. But this left little or no room for reductions in taxation to improve incentives. The figures implied by Scenario B were very disturbing. Public expenditure would amount to about 47 per cent of GDP, and the PSBR to about 7 per cent. Such a high PSBR would not be sustainable: large tax increases would be inevitable. In his view, the projections suggested that public expenditure must be reduced below its prospective level. He was not seeking specific reductions at this stage. But existing policies in all areas of Government activity should be re-examined with a view to reversing the apparent secular tendency of public expenditure to increase both absolutely and in relation to GDP.

Many overseas countries had reached similar conclusions. He also proposed that meanwhile, to allow freedom of manoeuvre, Ministers should agree to make no further public commitments which would add significantly to expenditure beyond 1985-86, and that they should avoid repeating former pledges which would otherwise expire; that in considering the 1982 Public Expenditure Survey Ministers should have particular regard to the longer-term implications of their decisions, especially for 1985-86; and that Ministers should consider further how these difficult issues might best be presented to the Government's supporters in Parliament and to the country at large.

In discussion, there was general agreement that the projections in the Treasury papers revealed a disturbing prospect. Admittedly the Government had made substantial progress in lifting some of the controls and regulations which inhibited the market economy, in bringing down inflation and in reducing interest rates, and there were some signs that productivity might be improving. Forecasts of economic growth were however necessarily uncertain; the expenditure figures, by contrast, were a fair projection of existing policies and therefore likely to come to pass unless those policies were changed. Experience proved that it was wise to use only the most modest assumptions regarding economic growth as a basis for planning public expenditure. It was easy enough to increase expenditure if economic performance turned out to be more favourable, but extremely difficult to disappoint public expectations raised by over-optimistic plans.

The following main points were also made:-

- a. It was necessary to consider not only ways of reducing public expenditure but also ways of increasing economic growth. The Government should not seem to be adopting a purely negative stance. It was necessary to devote far greater attention to ways of improving the performance of British industry and the creation of wealth by improving incentives; by reducing the burden of taxation and unnecessary regulations; by providing better incentives for managers; and by adopting a strategy of backing industry, as most of our leading overseas competitors had. Public expenditure should be switched from consumption and propping up declining industries to investment and promoting success. On the other hand, it was argued strongly that, however valid these suggestions might be, reductions in public expenditure were a necessary condition of economic success. It was idle to suggest increases in one type of expenditure without suggesting concrete and realistic ways of achieving at least offsetting reductions elsewhere. Nor would it be possible to reduce taxation and increase incentives, as all Ministers were agreed was desirable, unless public expenditure was reduced. Moreover, public expenditure and taxation lay within the Government's control; industrial performance did not.

b. Some members of the Cabinet argued that it was necessary to consider not only the structure of public expenditure programmes but also how the efficiency of institutions outside Government, in both public and private sectors, could be increased and how those institutions could make a greater contribution to economic growth. The Government should, for example, take a closer and more informed interest in the details of management in the public sector; and it should do what was possible to improve the management of the financial institutions and to encourage them to take a more constructive attitude to social and economic problems.

c. Some members of the Cabinet suggested that the United Kingdom lagged behind its main industrial competitors in the degree of de facto protection available to home-based industry. On the other hand, it was argued that a country as dependent as the United Kingdom on overseas trade could not afford to resort to protectionism; and that overseas investment was often a necessary condition of being able to export (as well as having a moderating effect on the exchange rate). The Government's economic policy was bringing success; it would be fatal to abandon it.

d. Much could be done to reduce the size of the public sector by privatisation in areas such as health care, education and many local authority functions. This was desirable both as a means of reducing taxation and as a way of increasing the range of choice available to people. Charities and the voluntary organisations should also be involved to a greater extent in the provision of services. Changes in the tax structure might be helpful in these contexts.

e. Considerable savings could be achieved through greater efficiency. The Government had already done well. Civil Service numbers had been reduced; and this, coupled with strict financial disciplines and careful scrutiny of departmental activities, had saved some £750 million a year. If the political will was there, more still could be achieved in central government. Even larger savings could be made if a similar approach was adopted in the National Health Service and by local authorities.

f. It was highly desirable to avoid renewing pledges as the Chancellor of the Exchequer advocated, but it would not in practice be easy: in particular, Government spokesmen would come under heavy pressure during an election campaign. In this event, the right response might be to say that pledges which entailed increased expenditure were irresponsible, since their fulfilment depended on the country's future economic performance.

g. It was likely that unemployment would remain at high levels for many years. The Government should devise policies to deal with this situation. Otherwise the social consequences, particularly among young people, would be extremely serious. It would also be necessary to explain to public opinion what the prospects for unemployment were, and why.

h. Measures to encourage initiative and enterprise were too often frustrated by bureaucratic caution. This year's Finance Bill, for example, had been widely criticised as frustrating measures to help small businesses by excessive fear of abuse through tax avoidance. Even if this criticism was exaggerated, the very complexity of the provisions was itself a deterrent to potential entrepreneurs.

j. Studies conducted with a view to achieving substantial reductions in public expenditure were bound to be politically sensitive. They should be carried out under the personal supervision of the Minister or Ministers responsible, in consultation with the Chancellor of the Exchequer and the Chief Secretary, Treasury.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the analysis in C(82) 30 and the note by officials circulated with C(82) 32. They also agreed that there should be no further public commitments which would add significantly to expenditure beyond 1985-86, and that Ministers should avoid repeating former pledges which would otherwise expire; that in considering the 1982 Public Expenditure Survey particular regard should be paid to the longer-term implications of decisions, especially for 1985-86; and that further consideration should be given to how the issues might best be presented to the Government's supporters in Parliament and to the country at large. The Chancellor of the Exchequer should bring forward proposals in due course on how an appropriate campaign of public education might best be mounted. All Ministers with responsibilities for public expenditure should examine their programmes critically with a view to contributing to a substantial reduction in public expenditure in the longer term; this need not entail reductions in the standards of service if ways of privatising significant areas of activity could be found or efficiency increased. Ministers should personally supervise studies directed to these ends, and discuss them as appropriate with Treasury Ministers and other colleagues. There were also potential areas of study which affected several Departments and might therefore better be conducted centrally; she would give further consideration to how such studies might best be organised. All Ministers should on a continuing basis consider how obstacles to a better economic performance might be removed and bring forward proposals accordingly. In particular, the Chancellor of the Exchequer should examine the criticisms that had been made of the 1982 Finance

Act. The Secretary of State for the Environment, in consultation with the other Ministers concerned, should also prepare a paper on the suggestions that he had made in discussion for improving management in the public and private sectors, for promoting the success of British industry and related ideas; she would consider how such a paper might best be considered when it was available.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed:
 - i. that Ministers should make no further public commitment which would add significantly to public expenditure beyond 1985-86, and should avoid repeating former pledges which would otherwise expire;
 - ii. that in considering the 1982 Public Expenditure Survey particular regard should be paid to the longer term implications of decisions, especially for 1985-86;
 - iii. to consider further how the issues of public expenditure in the longer term might best be presented to the Government's supporters in Parliament and to the country at large.
3. Invited all Ministers with responsibility for public expenditure to review their programmes critically with a view to contributing to a substantial reduction in public expenditure in the longer-term, to discuss their proposals with Treasury Ministers and other colleagues as appropriate, and to report.
4. Took note that the Prime Minister would consider how consideration could best be given to a paper by the Secretary of State for the Environment on the lines indicated in the Prime Minister's summing up.

Cabinet Office

13 September 1982