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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 13 DECEMBER 1979
at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

e Rt Hon William Whitelaw MP
cretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

e Rt Hon Sir Geoffrey Howe QC MP
ancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

e Rt Hon Francis Pym MP
cretary of State for Defence

The Rt Hon James Prior MP
Secretary of State for Employment

e Rt Hon Sir Ian Gilmour MP
rd Privy Seal

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

e Rt Hon Michael Heseltine MP
cretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

e Rt Hon Nicholas Edwards MP
cretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

e Rt Hon Patrick Jenkin MP
cretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

e Rt Hon John Nott MP
cretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

e Rt Hon Mark Carlisle QC MP
cretary of State for Education and Science

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

Rt Hon Norman Fowler MP
ister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr Paul Channon MP
Minister of State, Civil Service Department
(Items 6 and 7)

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 3 and 4)
Mr P Le Cheminant (Items 5-7)
Mr P J Harrop (Items 1 and 2)
Mr R L Wade-Gery (Items 3 and 4)
Mr P Mountfield (Items 6 and 7)
Mr W N Hyde (Items 1 and 2)
Mr G D Miles (Item 5)

CONTENTS

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1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was pointed out that, if the Motions to approve the Rate Support Grant (Increase) Orders were not passed before the recess, it was likely that some local authorities would have to borrow at the high prevailing rates of interest in order to meet their commitments in the present financial year. These Orders, unlike the Orders setting the Rate Support Grant for the next financial year, could be taken after 10.00 pm. They did not have to be approved by the House of Lords and should be debated in the House of Commons the following week, probably on Thursday, 20 December.

The Cabinet -

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THE SECRETARY OF STATE FOR THE ENVIRONMENT said that further concern had been expressed about the Local Government, Planning and Land Bill. The Chairman of the Conservative Party and representatives of the local authority associations had expressed opposition to the provisions in the Bill for transferring planning powers from County to District Councils, for a new form of Rate Support Grant and for a new system of control for local authority capital expenditure. In view of the length of the Bill, there was also concern about the timetable for its passage through Parliament. He was prepared to shorten the Bill by dropping some 60 clauses. There could, however, be no question of a major alteration of policy on block grant or capital controls. He believed that many local authorities would welcome the proposal to change from a project-based to a ceiling-based control of capital expenditure. It was not clear on the face of the Bill, however, how its provisions would achieve that result. That would depend on how the provisions would be operated; and he had not yet had an opportunity to explain this to local authorities. Once he had agreed with the Chancellor of the Exchequer how these controls were to operate in practice, he proposed to meet and explain to the Tory group leaders of local authorities that, despite the imposition of overall ceilings for capital expenditure, authorities would benefit greatly from the relaxation of the present detailed controls. He would, however, need the firm backing of his colleagues for the essential provisions of the Bill.

In discussion, it was argued that problems of Parliamentary handling would arise both from the length and complexity of the Bill and from the number of controversial issues that had to be debated. There was strong opposition in Parliament and among Conservative local authorities to some of its financial provisions, and the County Councils objected to the proposed changes in the distribution of planning powers. If the financial provisions were to remain at the core of the Bill, as many clauses as possible should be deferred to a later session; otherwise the whole of the Government's legislative programme would be put at risk. In further discussion there was strong support for the early implementation of the main elements of the Bill to establish effective control over public expenditure by local authorities. The provisions relating to the efficiency of local authorities, the greater accountability of direct labour organisations and the repeal of the Community Land Act would command support among Government backbenchers. The consequential re-enactment of the powers of the Land Authority for Wales, though lengthy, should not occupy much Parliamentary time. If, in the event, there had to be a guillotine, it seemed unnecessary to contemplate dropping major provisions of the Bill. Detailed amendments to meet legitimate points raised by local authorities could be made in Committee.

THE PRIME MINISTER, summing up the discussion, said that the abolition of detailed controls and the sorting out of planning functions would enable staff to be saved in both central and local government. The Cabinet had reaffirmed the need to introduce the new form of Rate Support Grant and a new system of capital controls in order to prevent future over-spending by local authorities. The Secretary of State for the Environment should discuss the operation of the new controls with representatives of local authorities, stressing the benefits of the new procedures, but also offering to consider any alternative suggestions they might have for achieving the Government's objectives. The presentation of the provisions in the Bill for the control of capital expenditure should be revised. The Cabinet had noted the offer of the Secretary of State for the Environment to omit 60 clauses from the Bill. He should consider whether any further reductions could be made in the size of the Bill without jeopardising essential provisions. He should report on all these matters, as early as possible in the New Year, to a small group of Ministers to be set up under the chairmanship of the Home Secretary. The Bill, as shortened and amended, should be introduced into the House of Commons, as soon as possible after the recess. Every effort should be made to secure the passage of the Bill this session: an extended session might well become necessary for both Houses.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.

3. Invited the Secretary of State for the Environment to agree the detailed working of the controls over local authority capital expenditure with the Chancellor of the Exchequer; to discuss with and explain the proposals to the group leaders of local authorities; and to seek an amended presentation of the relevant provisions in the Bill.

4. Invited the Secretary of State for the Environment to consider whether the Bill could be further shortened by dropping provisions which were not essential.

5. Invited the Secretary of State for the Environment to report on the progress he had made and conclusions reached to an ad hoc group to be set up under the chairmanship of the Home Secretary.

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THE PRIME MINISTER, summing up a brief discussion, said that there was no question of the Government going ahead with the building of new offices for Members of Parliament at a time when public expenditure on important social services had to be reduced. She would be prepared to answer a Parliamentary Question to that effect.

The Cabinet -

6. Took note, with approval, of the Prime Minister's summing up of their discussion.

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2. THE SECRETARY OF STATE FOR INDUSTRY said that the Chairman of British Leyland had been due to visit Japan before Christmas to sign the contract with Honda for the joint production of a new model at Cowley. It would be impossible for the Government to reach a decision on the British Leyland plan and request for additional Government funding before then. Sir Michael Edwardes intended, therefore, to postpone his visit. It was hoped that Honda would be prepared to postpone a decision on the deal; if, however, Honda decided in the circumstances not to proceed with the joint venture, rather than to wait for a postponed visit, British Leyland might feel obliged to withdraw their plan for reconsideration.

The Cabinet -

Took note.

3. THE LORD PRIVY SEAL said that during his visit on 10 December the United States Secretary of State, Mr Vance, had in the context of the American hostages in Tehran asked the Government to take action to freeze Iranian assets in London. The Government was anxious to support the United States Government if it could; but it had not been possible to agree to this proposal because it was not clear that the Government had the necessary legal powers and because any such action could do lasting damage to London's role as a financial centre and to the oil-producing countries' confidence in the international monetary system. The Foreign and Commonwealth Secretary was in Brussels and in touch with Mr Vance and the French and German Foreign Ministers. The Americans were likely to pursue their case before the International Court of Justice and with the United Nations Security Council. Her Majesty's Ambassador and other diplomatic representatives in Tehran were advising against resort to more drastic action at present. But it would not be easy to satisfy American public opinion. Given Iranian disregard for international law, the possibility of Britain and other European countries withdrawing their Ambassadors from Tehran might have to be considered but did not on balance seem desirable at present.

THE LORD PRIVY SEAL said that British sanctions against Rhodesia had now been lifted, with little adverse reaction so far. New Zealand had followed suit, and the Federal Republic of Germany was thought to be about to do so. It was also hoped that the United States Government would lift sanctions in the near future, in spite of the initially unhelpful attitude of their representative at the United Nations. Meanwhile at Lancaster House the Salisbury delegation appeared willing to accept both the latest British proposals on the ceasefire arrangements and the Final Act of the Conference. The intentions of the Patriotic Front delegation remained uncertain, but there was a reasonable prospect that they too would accept.

The Cabinet -

1. Took note.

THE SECRETARY OF STATE FOR DEFENCE said that the Foreign and Commonwealth Secretary and he were on balance well satisfied with the decisions on long-range theatre nuclear forces taken at the Ministerial Meeting of the North Atlantic Treaty Organisation in Brussels on 12 December. As well as settling the arms control proposals to be put forward (including the American offer to withdraw 1,000 nuclear warheads from Europe), the Alliance had agreed to the deployment in Europe of all the 572 new American missiles envisaged. Reservations by Belgium and the Netherlands had proved less serious than at one time seemed likely. The Belgian Government had agreed to accept their share of the missiles, subject only to reconsideration after six months, in the light of the progress of arms control negotiations; and the Dutch Government had accepted the proposals as a whole, but had postponed a decision on taking a share of the missiles in Holland until the end of 1981. Even the latter date was at least a year earlier than the proposed deployment could in practice begin.

THE PRIME MINISTER said that, when she and the Foreign and Commonwealth Secretary visited the United States on 17-18 December, she would have a preliminary discussion with President Carter on the replacement of the British strategic nuclear deterrent force, for which on economic grounds alone American assistance would be necessary. The President was unlikely to want to take firm decisions on the matter at this stage, and it might be several months before agreement was reached.

The Cabinet -

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4. THE LORD PRIVY SEAL said that discussions between the budget Ministers of the European Economic Community and the European Parliament had so far failed to reach agreement, and it could well be that the European Parliament would vote to reject the draft Community budget for 1980. It was arguable that this would create a situation in which we could hope to change the budget to our advantage, and there had been indications that the Germans saw a connection with the problem of our net contribution. On the other hand, the confusion created by Parliament's failure to vote the budget might detract attention from our immediate problem. On balance, failure to decide on the 1980 budget would probably not be helpful to us.

In a brief discussion it was stressed that the Government should seek wherever possible to avoid getting into the position which it had found itself on this issue, of being unable to support Conservative Members of the European Parliament who were trying to be helpful to British interests.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the Council of Ministers (Agriculture) on 10-11 December, the French representatives had sought to block the proposals for a devaluation of the Green Pound and the Italian Green Lira, in order to extract concessions on wine and sheepmeat. After long and difficult negotiations, including a powerful and effective intervention by his Minister of State (Mr Buchanan-Smith), agreement had been reached on a package of structural measures in the wine sector which involved less Community expenditure than the Commission's proposals. The United Kingdom representatives and the Commission had refused to agree to a French plea that further legal proceedings on sheepmeat should be abandoned. The French had finally agreed to lift their reserve on the Green currencies devaluations.

The Cabinet -

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5. The Cabinet considered a letter dated 10 December from the Private Secretary to the Secretary of State for Trade to the Private Secretary to the Prime Minister, and a note prepared by the Secretary of State for Trade for the Ministerial Committee on Economic Strategy (E(79) 69), both about airport development policy.

THE SECRETARY OF STATE FOR TRADE said that the previous Government had set up two Committees, an Advisory Committee on Airports Policy and a Study Group on South-East Airports, to consider the longer-term options for handling growth of air traffic in the South-East. These Committees, which included membership of all the major interests concerned, including the local authorities, had now reported to him, and he proposed that the reports should be published. It was desirable that the Government should put an end to the uncertainty surrounding airport policy, and he proposed therefore to make a statement on the day of publication of the reports announcing the Government's conclusions. The issues had been examined in the Ministerial Committee on Economic Strategy, and a number of preliminary decisions had been reached, subject to endorsement by Cabinet, both on substance and presentation. These were that there should be no major new airport for London on the lines envisaged by the Roskill Commission; that the fullest use of regional airports should be encouraged; that additional airport capacity should be provided as the traffic developed, at the existing airports of Heathrow, Gatwick and Stansted; that there should be a fourth, but not a fifth, terminal at Heathrow; that there should be no second runway at Gatwick; that the British Airports Authority (BAA) should be invited to bring forward proposals for a new terminal at Stansted, so as to make maximum use of the existing runway facilities; and that outline planning consent should also be sought for the development of a second runway at that site. An actual need for a second runway at Stansted would not emerge, if it emerged at all, before the 1990s, but the grant of outline planning permission would enable any property owners in the affected area (about 2,000 acres) who wished to dispose of their properties to do so to the BAA at unblighted values. He proposed that the announcement should be made early next week, and that he should hold out the prospect of a Parliamentary debate on the policy early in the New Year.

In discussion the following main points were made -

a. In handling the planning aspects of developments like that envisaged for Stansted it was desirable that there should be opportunities both for public and for Parliamentary debate. There were a number of ways in which both objectives could be achieved. All involved a public inquiry, but there was no need yet for the Government to decide on the most appropriate Parliamentary arrangements. A decision here could be deferred until after the proposed debate and public reaction to the announcement as a whole.

b. It would be important to avoid compromising the quasi-judicial function of the Secretary of State for the Environment in respect of planning applications. The proposed statement would need to be worded with this in mind.

c. It would be important for the statement to go as far as possible in relieving the anxieties of those who were opposed to the development of a new airport at Maplin or at inland "green field" sites.

d. An enlarged traffic flow to Stansted would require improvements in access both by rail and by road, including the road links between central London and the M11. The provision of these links, with due regard to the interests and feeling of those through whose communities the new links would pass, would be very important to public attitudes to the proposals for developing Stansted. These would require additional public money, but the extra sums needed to provide for improved surface links would be lower in the case of Stansted than in any of the sites canvassed for "green field" development. The provision of a new rail link from Stansted to the Liverpool Street to Cambridge line would require the passage through Parliament of a Private Bill.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the provision of a new major airport for London should be ruled out, as should the possibility of a second runway at Gatwick, and a fifth terminal at Heathrow. The Government were prepared for the BAA to bring forward detailed proposals for further development at Stansted, including a new terminal and other facilities to increase the use made of the existing runway, together with outline proposals for the possible longer-term development of a second runway. These proposals would then be examined by an appropriate planning procedure, before any final decision was taken. Early next week the Secretary of State for Trade should make an announcement along the lines he had indicated, taking into account the points made in discussion, and should publish the reports of the study groups at the same time. He should consult colleagues as appropriate about the precise terms of the statement. The Cabinet were also agreed that he should offer the prospect of a Parliamentary debate early in the New Year, and that decisions about the planning procedures for dealing with this case should be deferred until the debate had taken place. The Cabinet thus endorsed all the recommendations contained in paragraph 16 of E(79) 69, except that the decision on the planning procedures should be held over for the time being.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Trade, after consultation with the Secretary of State for the Environment, to make a Parliamentary statement on the lines indicated in the Prime Minister's summing up, and to arrange for the publication of the reports of the Advisory Committee on Airports Policy and the Study Group on South-East Airports at the same time.

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6. The Cabinet considered a memorandum (C(79) 61) by the Chancellor of the Exchequer, reporting his present view of the economic outlook and making recommendations for further reductions in public expenditure.

The Cabinet's discussion is separately recorded.

The Cabinet -

1. Agreed upon the necessity to make the further reductions in the total of public expenditure recommended by the Chancellor of the Exchequer.

2. Invited the Chancellor of the Exchequer and the Chief Secretary, Treasury, to discuss with the Departmental Ministers concerned programme reductions to achieve the agreed reductions in the totals.

3. Invited the Chancellor of the Exchequer to circulate a further memorandum on the economic background and on monetary policy.

4. Agreed to resume their discussion before the end of January.

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7. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(79) 60) proposing the pay and price adjustments to be used in setting cash limits for central Government expenditure in 1980-81 to correspond with the Cabinet's earlier decisions on the volume of expenditure.

THE CHANCELLOR OF THE EXCHEQUER said that Ministers had already agreed to the cash limits and external financing limits for local authorities and nationalised industries. The next step was to set cash limits for the remainder of central Government expenditure, including the National Health Service (NHS) and the defence budget, but excluding the pay of the Civil Service, for which separate provision would be made later. He proposed a single combined figure of 14 per cent for expected pay and price movements, year upon year. This figure was in line with the forecast published under the provisions of the Industry Act. If in the event the outturn was higher, the volume of expenditure would have to be adjusted so as to stay within the cash limits. The figures should not be set so low as to risk the breakdown of the cash limits system. He recognised that these proposals could be thought to involve a measure of automatic indexation, of a kind which Cabinet regarded as undesirable; but this was inevitable, in a system where expenditure decisions were taken in volume terms and had to be translated into cash figures. He hoped it would be possible to use much smaller adjustment factors in later years.

In discussion the following points were made -

a. There was a risk that any built-in inflation factor would be misunderstood, and if separately published, might be construed as a pay norm. It was another example of the automatic adjustment for movements in the Retail Price Index which lay at the root of the public expenditure problem. Against this it was argued that Ministers had already agreed their approach to the volume of public expenditure. It would be wrong, and in a sense surreptitious, to seek to impose a further volume reduction by way of cash limits. A single provision for pay and price movements combined could be presented as covering a wide range of individual changes. There was, however, no way of avoiding publication of individual cash limit figures.

b. It was suggested that it would be preferable to adopt a figure of 13 per cent, to correspond with the figure used for Rate Support Grant expenditure. Against this it was argued that the difference was justified because local authorities had alternative methods of financing not available to central Government, and in particular to the NHS.

c. Special provision would be made for those groups for whom the Standing Commission on Comparability had yet to report. The exact amount to be allowed for this purpose, eg for university teachers, should be considered further.

d. The measures suggested would present problems for the Ministry of Defence, where the Government was bound not only by its own Manifesto but by international commitments on defence expenditure. A particular problem might arise on the pay of the Armed Forces, since the Government was committed to implementing the recommendations of the Armed Forces Pay Review Body (AFPRB) in April, and these might well indicate a higher figure. It was argued that, if significant cuts were to be sought from the defence budget, such cuts should be discussed on merits, not imposed as a by-product of cash limits.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the proposal made by the Chancellor of the Exchequer, and generally endorsed the adjustment factors set out in Annex A to his paper. The precise allowance to be made for individual groups should be discussed further with the Ministers concerned. The Cabinet recognised that the pay of the Armed Forces might present special problems, given the Government's commitment to implement the findings of the AFPRB: one possibility might be a separate limit for Armed Forces pay, as for Civil Service pay. The Cabinet would be content, accordingly, for the Chancellor of the Exchequer and the Secretary of State for Defence to seek to reach agreement on any special treatment which might be necessary in this case.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer to discuss with the Secretary of State for Education and Science and the Secretary of State for Social Services the cash limits to be adopted for the pay of those groups for whom there were outstanding comparability awards.

3. Invited the Chancellor of the Exchequer to consider with the Secretary of State for Defence, in the light of the points made in discussion, the application of the Cabinet's decisions in the area of the defence budget, having regard in particular to the Government's commitment on Armed Forces pay.

4. Subject to the outcome of these discussions, approved the proposals for cash limits for 1980-81 set out in Annex A to C(79) 60.

Cabinet Office

13 December 1979

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CABINET

LIMITED CIRCULATION ANNEX

CC(79) 25th Conclusions, Minute 6

Thursday 13 December 1979 at 10.15 am

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The Cabinet considered a memorandum (C(79) 61) by the Chancellor of the Exchequer, reporting his present view of the economic outlook and recommending further reductions of £1,000 million in public expenditure in 1980-81 and of £2,000 million in each of the subsequent years.

THE CHANCELLOR OF THE EXCHEQUER said that Cabinet had accepted, in its discussion of the November economic measures, the possibility that further cuts in public expenditure might be necessary, beyond those already agreed. The present economic strategy, based on tight control of the growth of money supply, was the only one open to the Government. To achieve it without intolerably high interest rates or increases in taxation - which would themselves be inconsistent with the strategy - required further reductions in public expenditure. Since the Budget in June there had been a number of adverse developments. Oil prices had increased faster than expected. So had pay settlements, though recently there had been some more favourable indications. The problem of our contributions to the European budget had not yet been satisfactorily resolved. The Cabinet's earlier decisions on reductions in public expenditure had not been as far-reaching as he had hoped or recommended. Without further cuts, it would be necessary to increase taxes in the 1980 Budget if continued high, and perhaps even higher, interest rates were to be avoided. Most outside commentators had recognised the need for further reductions in expenditure, going beyond the published figures for 1980-81, and pressure for such cuts was mounting. He believed that it was necessary to reduce expenditure in 1980-81 by a further £1,000 million, and to reduce the plans for later years by £2,000 million in each year. Without early decisions of this kind, the Cabinet could easily be forced into a series of improvised emergency economic measures. Such decisions would entail the postponement of publication of the White Paper on Public Expenditure from 1981-82 to 1983-84.

In discussion the following main points were made -

a. The published figures for public expenditure in 1980-81 had been regarded as disappointing, and this was one of the factors which had made necessary an increase in interest rates. Indeed, had the Cabinet accepted the Chancellor of the Exchequer's earlier advice on expenditure cuts the 17 per cent Minimum Lending Rate and the 15 per cent mortgage rate might have been avoided.

b. If anything, the Chancellor of the Exchequer's forecasts were over-optimistic. The prospects for world trade were deteriorating. Oil prices were likely to rise sharply again in the near future. The expenditure plans made no provision for a number of possible additional burdens, including measures to offset the rundown of the steel industry, and the needs of British Leyland.

c. Too much reliance should not be placed upon forecasts of the Public Sector Borrowing Requirement (PSBR). In a recession the money supply and demand for credit would tend to come down, and a temporary increase in Government borrowing might be the appropriate response. Against this it was argued that allowing the PSBR to rise was the correct response to a recession only if the PSBR was at a low level to begin with. The PSBR in the United Kingdom was too high in relation to the gross domestic product, and it could not be allowed to rise further without unacceptable risks to confidence.

d. The main dynamic factor in the growth of public expenditure was the way in which so many programmes increased directly or indirectly in proportion to movements in the Retail Price Index (RPI). The RPI would rise in any case next year, for reasons quite outside this country's control, as world oil prices increased. The United Kingdom economy could not be insulated from these movements. This meant that it was now desirable to look again at all index-linked expenditures, including social security benefits and public sector pensions - though in the latter case action might more fruitfully be concentrated on ensuring that an adequate contribution was made by employees to the cost of their pension rather than by seeking to remove index-linking as such. It was essential that public sector pay negotiators should realise that pay could not automatically be increased to compensate for movements in the RPI.

e. Other elements in public expenditure would also need to be curtailed. There would be much to be said for seeking to achieve the necessary savings by means of a relatively small number of large reductions, concentrating on major decisions, however painful these might be. Difficult decisions would in particular be needed in social security and in other social services, and on public sector rents. But no area could be wholly exempt: other Departments would have to meet their share, although inevitably the major burden would have to fall on some of the largest spenders.

f. It was undesirable that the incidence of further cuts should fall, as it had tended to do in the past, on capital expenditure, and there was probably little scope for further reductions following the cuts made in previous years. The prime target should therefore be current rather than capital spending.

g. It was suggested that the Chancellor of the Exchequer's strategy was seen by many as relying too much on influencing the price of money and not sufficiently on controls of the quantities of credit. It might well be that an explosion of financial technology had made quantity controls ineffective, but it would help Ministers in the public exposition of the Government's case if they could be given a fuller account than was at present available of the Chancellor of the Exchequer's monetary strategy and of the instruments by which it was being pursued, to enable them to answer public criticism of this kind.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed to aim at reductions of public expenditure of £1,000 million in 1980-81 and of £2,000 million in each of the three subsequent years. It would be less difficult to make these decisions now than to take further offsetting action later. Ministers should themselves review their own programmes, to see where reductions could be made. The Chancellor of the Exchequer and the Chief Secretary, Treasury, should discuss proposals for reductions with Departmental Ministers. If necessary, a small group of Ministers could be established to consider any points which could not be resolved in bilateral discussion. The results should be reported to Cabinet before the end of January. Meanwhile, publication of the second Public Expenditure White Paper, covering the years 1981-82 to 1983-84, should be postponed, and an announcement about this should be made immediately before or just after Christmas. The Chancellor of the Exchequer would circulate a further paper to the Cabinet on the economic background to the public expenditure problem, and on the techniques of monetary control available to him for controlling the growth of the money supply.

The Cabinet -

1. Agreed upon the necessity to reduce public expenditure by £1,000 million in 1980-81 and by £2,000 million in each of the subsequent years.

2. Invited the Chancellor of the Exchequer and the Chief Secretary, Treasury, to discuss with the Departmental Ministers concerned programme reductions to achieve the agreed reductions in the totals.

3. Invited the Chancellor of the Exchequer to circulate a further memorandum on the economic background and on monetary policy.

4. Agreed to resume their discussion before the end of January.

Cabinet Office

14 December 1979