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CC(90) 3rd  
Conclusions

COPY NO 80

CABINET

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CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 24 JANUARY 1980  
at 10.00 am

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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 Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

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

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

The Rt Hon Francis Pym MP  
Secretary of State for Defence

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

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

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

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

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

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services

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

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education and Science

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP  
Minister of Transport

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

Earl Ferrers  
Minister of State, Ministry of Agriculture,  
Fisheries and Food

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

SECRETARIAT

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

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The Committee on the Programme for the 1960s was set up in 1959. It was the first of its kind in the history of the Government. Its terms of reference were to study the long-term economic and social needs of the country and to recommend a programme of action to meet these needs. The Committee has since held several public hearings and has received many suggestions from the public. It has also conducted extensive research into various aspects of the economy and has published several reports. The Committee's work is being carried out in close consultation with the relevant departments of the Government. It is expected that the Committee will submit its final report to the Prime Minister in the near future.

The Prime Minister has announced that the Government will be introducing a new programme of public expenditure in the next Budget. This programme will be designed to meet the needs of the country in the 1960s. It will include a wide range of measures, including increased spending on education, health, and social services. The Government is committed to ensuring that the programme is financed in a way which does not lead to excessive borrowing. It is also committed to ensuring that the programme is implemented in a way which is consistent with the principles of sound financial management.

AMMENTARY 1. The Cabinet were informed of the business to be taken in the  
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THE CHANCELLOR OF THE DUCHY OF LANCASTER said that he had summarised the progress made with the legislative programme in his minute of 21 January to the Prime Minister of which his colleagues had copies. Most of the major Bills in the programme had now been introduced. The Local Government Planning and Land (No. 2) Bill was being introduced in the House of Commons that day and the Broadcasting Bill should be ready for introduction the following week. He was concerned, however, at the delay in the preparation of the Petroleum and Submarine Pipelines Bill. The Competition Bill had received its Third Reading in the Commons and other Bills, including the Industry and National Heritage Bills, had been through Standing Committee. A guillotine was being introduced for the Education (No. 2) Bill. In general the position in the House of Commons was reasonably satisfactory; but there was risk of serious congestion in the House of Lords later in the Session. There was no room for new substantial Bills to be added to the programme. The aim must be to complete the Session by the end of October so that a new Session could start at the beginning of November; delay beyond that in opening the new Session would only lay up problems of congestion and business management for the future. To achieve this it might well be necessary for Parliament to sit into the first week of August as well as for three weeks in October immediately after the Party Conference.

THE PRIME MINISTER, summing up a brief discussion, said that as much progress as possible must be made with the programme before the Summer Recess in order that the spillover could be restricted to about three weeks in October. In particular, every effort should be made to secure the passage of the Local Government Planning and Land (No. 2) Bill through the House of Commons by the end of June so as to alleviate the problems foreseen in the House of Lords.

The Cabinet -

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

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2. THE FOREIGN AND COMMONWEALTH SECRETARY said that he and the Lord Privy Seal would be making statements to Parliament later that day on the situation following the Soviet invasion of Afghanistan, on his own recent travels in the area, and on the steps which the Government had already agreed to take. It was clear that Governments in the area, including India, were gravely disturbed by the Soviet action, but it was too little realised that subversion was a greater danger than overt aggression. The development of a common front against the Soviet threat was hampered by several factors: the intense mutual suspicions of India and Pakistan; the unpopularity of the Camp David agreement in most Moslem countries; and the fear that the current American sanctions policy was increasing the danger of the break-up of Iran, from which only the Russians would benefit. Nevertheless it was striking that 104 members of the United Nations had voted to condemn the Soviet Union. That would have been unthinkable until recently. It showed in particular the strength of Moslem feeling about the rape of Moslem Afghanistan. The forthcoming Islamic Conference in Islamabad was likely to prove important. Another satisfactory development was Cuba's loss of standing within the Non-Aligned Movement and her consequent decision to withdraw as a candidate for the Security Council. The reactions of Britain's partners in the European Community and the North Atlantic Treaty Organisation had been mixed. Germany and France were particularly cautious about measures against the Soviet Union. Germany's attitude was conditioned by her circumstances and by her stake in her Ostpolitik, but domestic political developments seemed nevertheless to be allowing the Federal Government to adopt more robust attitudes, eg in relation to the Olympic Games. The French Government's posture was more cynical; but the fate of Dr Sakharov, a leading Soviet dissident, seemed now to be making the sort of impression on French public opinion which the Soviet invasion of Afghanistan might have been expected to make earlier. Britain's measures included steps to discourage cultural exchanges with the Russians. As regards the Olympics, the Prime Minister had written to the Chairman of the British Olympic Association (BOA) suggesting transfer away from Moscow; the reaction of the sporting community was uncertain, but it seemed clear that action against the Moscow Olympics offered the best hope of bringing home to the Russians the unacceptability of what they had done.

In a brief discussion it was noted that the Chairman of the BOA had now replied to the Prime Minister in non-committal but not unfriendly terms - that public opinion seemed increasingly favourable to the Government's attitude; and that the British Broadcasting Corporation and the Independent Broadcasting Authority had reached agreement to act in concert as regards the possibility of restricting coverage of the Games in Moscow, on which no decision had yet been taken.

THE FOREIGN AND COMMONWEALTH SECRETARY said that further measures by the United States against Iran were not likely before the Islamic Conference in Pakistan, and perhaps not before the Iranian Presidential election. There seemed to be some possibility that the release of the American hostages might be secured by negotiations behind the scenes.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that President Tito's remarkable recovery was a welcome development. It remained important to continue to provide Yugoslavia with private assurances of Western support, but there was a danger of offending Yugoslav susceptibilities if such assurances were over-emphasised in public.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that in all the circumstances the situation in Rhodesia had been developing better than might have been expected. But it remained fragile. A difficult decision might shortly have to be taken over Mr Mugabe, who wished to return on 27 January but had not yet released the detainees held by his forces in Mozambique. International criticism continued over the presence of South African troops inside Rhodesia at Beitbridge. This presence had had to be accepted in order to persuade General Walls and the Salisbury regime to agree to the ceasefire arrangements. Beitbridge was important to the Whites in Rhodesia as their potential escape route. The South Africans could not be replaced by British troops, whom it would be most undesirable to deploy in a military as opposed to a monitoring role. But it might be possible to announce shortly that the South Africans would withdraw before the elections.

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The Cabinet -

Took note.

COMMUNITY  
AFFAIRS---  
Community BudgetPrevious  
Reference:  
CC(80) 2nd  
Conclusions  
Minute 3

3. THE LORD PRIVY SEAL said he had now completed his tour of capitals. In the Federal Republic of Germany there had been some willingness to resolve our budget problem although doctrinal objections had been raised against several possible solutions. Herr Lahnstein, the State Secretary in the Federal Ministry of Finance, had expressed a readiness to help when the Commission's paper became available. In Dublin, the new Taoiseach had been anxious to show his moderation and the Irish would probably be reasonably helpful provided they could obtain some benefit for themselves. The Danish Prime Minister, who had not been briefed, had reiterated the position he had adopted at the Dublin European Council, but the Danish Foreign Minister had been more helpful. The attitude of the French Government had been one of studied non-commitment, expressed in different ways by the Prime Minister, the Foreign Minister and the Minister of Finance. The French had made a clear link with the problem of sheepmeat. With the exception of France, however, his tour had revealed a readiness in the rest of the Community to go beyond what had been offered in Dublin. Everyone was anxious, in the light of the worsening of East-West relations, to get the Community Budget problem out of the way as soon as possible.

Agriculture  
CouncilPrevious  
References:  
CC(80) 2nd  
Conclusions,  
Minutes 2  
and 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the Council of Ministers (Agriculture) on 21-22 January, the other member states had adopted a tougher attitude towards the French over sheepmeat, and the President of the Council had concluded that the Commission should do everything possible to secure early French compliance with the judgment of the European Court. Commissioner Gundelach now admitted that the only way to secure a further judgment from the European Court speedily was to ask for interim measures. It was important for Her Majesty's Government to put political pressure on the Commission to decide in this sense.

The Irish had withdrawn a request for the Council to discuss sales of butter to the Soviet Union, telling the Press that they had received assurances from Commissioner Gundelach that the prefixation of export restitutions - which allows traders to enter into export contracts without the risk of the Community subsidy being subsequently reduced or suspended - would be resumed within two weeks. It was clear that the French, Dutch and Irish were determined to go on selling butter for commercial reasons and, in the case of the French, because of their wish to maintain political links with the Soviet Union. Decisions on prefixation and the level of export restitutions were taken by the Commission under

Management Committee procedure over which we had no veto. Other member states were reluctant to cut off what was the cheapest method of disposing of butter surpluses; it was therefore very unlikely that the Council of Agriculture Ministers would come out against such sales, although the German attitude now seemed to be coming closer to that of the United Kingdom.

In a brief discussion it was noted that, in his Statement to the House of Lords about Afghanistan later in the day, the Foreign and Commonwealth Secretary would be indicating that we were pressing our Community partners to restrict sales of butter and other subsidised agricultural exports to the Soviet Union. British public opinion would certainly resent the continuance of these sales and the consequences of that for the Community Budget and the British contribution to it. Although this was a matter for Community decision, Her Majesty's Government should be seen to be doing everything possible to stop subsidised exports to the Soviet Union.

The Cabinet -

Took note.



NORTHERN  
IRELAND

previous  
reference:  
80) 1st  
conclusions,  
page 4

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the Conference on the future government of Northern Ireland had completed its second week and had got down to matters of substance. Although agreement had been reached on the agenda, the Social Democratic Labour Party were refusing to participate fully until the main item of interest to them was reached; and it was possible that they might try to leave the Conference once discussion of that item had been completed. All parties at the Conference appeared to favour a provincial government with legislative as well as executive powers, rather than a provincial council; and it was important in that context that the Conservative Election Manifesto had spoken of establishing one or more elected councils only if more fully devolved government remained unattainable. The Official Unionist Party had sent the Prime Minister a statement of their views; but they had refused to allow this to be put before the Conference, in which they remained unwilling to take part.

The Cabinet -

Took note.

INDUSTRIAL  
AFFAIRS

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Industry

previous  
reference:  
80) 2nd  
conclusions,  
page 6

5. THE SECRETARY OF STATE FOR INDUSTRY said that there was now a hope that the British Steel Corporation management and the steel unions would shortly resume negotiations, though there could be no certainty of an early agreement being reached. The union-inspired blockade of steel imports appeared to be effective, but steel stocks were generally speaking continuing to reach consumers. Stocks of steel at consumers' premises were in general still surprisingly high, given that the strike was now in its fourth week.

In a brief discussion attention was drawn to a request made by the General Council of the Trades Union Congress (TUC) for an early discussion between the TUC's Nationalised Industries Committee and the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Employment on the problems of the nationalised industries, especially the British Steel Corporation's closure programme, the related problem of coking coal imports, and the possibility of obtaining financial help from the European Community. The Chancellor of the Exchequer proposed to offer such a meeting, to take place in the following week, on the understanding that the field of discussion would not extend to the current steel dispute.

The Cabinet -

1. Took note.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the management and unions in the water industry would be meeting on Monday 28 January to continue negotiations for a wages settlement. The unions' claim comprised two elements: a settlement for the current year, and a claim for comparability of treatment with their counterparts in the gas and electricity industries, to which they argued that there was an outstanding commitment from last year's negotiations. It was too early to assume that a settlement could be reached and the possibility of a strike remained.

THE HOME SECRETARY said that his understanding was that the Government could expect seven days' notice before any strike began. A period of notice of this kind would be very valuable in organising the deployment of troops to assist in maintaining supplies. The Civil Contingencies Unit (CCU) was in close touch with the position and had pointed to the critical importance which attached to the attitude of the supervisory staffs in the industry. With their co-operation the Armed Forces could perhaps maintain supplies for about six weeks. Without it endurance would be a matter of days only.

In discussion attention was drawn to the fact that in Scotland water workers were employed by the local authorities alongside other workers who would be receiving the recently negotiated 13 per cent pay increase for local authority manual workers generally. This could lead to complications. The importance of the role of supervisory staffs was recognised as was the desirability of obtaining the maximum warning of the onset of any strike. The Secretary of State for the Environment would check further on the length of warning of the onset of a strike which might be obtained.

The Cabinet -

2. Took note.

6. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(80) 4) describing the economic background to the public expenditure problem, the Government's monetary strategy and the available methods of monetary control. The Cabinet's discussion is recorded separately.

The Cabinet -

Took note of the Chancellor of the Exchequer's analysis of the economic outlook, as the background to their discussion of public expenditure.

PUBLIC  
EXPENDITURE

Previous  
reference:  
(79) 25th  
conclusions,  
page 6

7. The Cabinet considered a memorandum (C(80) 3) by the Chancellor of the Exchequer and the Chief Secretary, Treasury, about further reductions in the planned levels of public expenditure from 1980-81 to 1983-84. They also had before them a memorandum by the Chancellor of the Exchequer and the Secretary of State for Social Services about the November 1979 uprating of retirement pensions (C(80) 6); a memorandum by the Secretary of State for Employment about special employment measures (C(80) 5), and a memorandum by the Chief Secretary, Treasury (C(80) 7), covering some statistics about the deployment of local authority manpower. The Cabinet's discussion is recorded separately.

The Cabinet -

1. Agreed to resume their discussion the following week.
2. Agreed that the "earnings shortfall" in the November 1979 rates of long-term social security benefits should not be made good, and that this decision should be announced as soon as possible.

Cabinet Office

24 January 1980

CABINET OFFICE  
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21 JAN 1980  
FILING INSTRUCTIONS  
FILE NO.

~~Mr. Hamp  
Mr. Hyle  
Mr. Morrison  
Mr. Lyon~~

JFK

PRIME MINISTER

LEGISLATIVE PROGRAMME 1979/80

C19D/5

1. This minute reviews progress with the Legislative Programme.
2. We have 21 bills which fulfil promises in the Queen's Speech. 16 have already been introduced, although we are not proceeding with the Protection of Official Information Bill. The Nationality Bill will not now come forward this session. There are, therefore, only four bills fulfilling promises in the Queen's Speech still to be introduced: the revised version of the Local Government, Planning and Land Bill, the Broadcasting Bill, the Contempt of Court Bill and the Petroleum and Submarine Pipelines Bill, which gives powers for sales by BNO.
3. In total, and including the Queen's Speech bills we have introduced 37 Government bills (excluding finance and consolidation bills) so far this session. The Annex shows their present position and also lists the other bills still to be introduced.
4. We have made reasonable progress with the bills we have introduced so far. Among our first batch of major controversial bills the Competition and Industry Bills are through Standing Committee. Others - including Education (No 2), Transport and British Aerospace - are still in Standing Committee. The Chief Whip and I agree that a guillotine will be necessary for the Education (No 2) Bill, and I propose to announce this on Thursday and to table the Motion for debate on Monday 28 January.
5. We then have a second batch of major controversial bills starting in Standing Committee this week. They include Employment, Housing and Social Security. A guillotine is likely to be necessary for the Social Security Bill, and we may need others. I believe we can get most or all of the major bills in both

atches to the Lords in time for them to be dealt with by the end of July.

6. I recognise, however, that there will be considerable problems for the House of Lords, especially since they will have also to deal, either in July or during the spillover, with the Local Government, Planning and Land Bill.

7. You will see from the Annex that there are a number of bills in our programme which have yet to be introduced. Some will be going to Legislation Committee later this month. I must express concern, however, that we have not yet seen two of the Bills that the Secretary of State for Energy hopes to bring forward: the Petroleum and Submarine Pipelines Bill and the Energy Conservation Bill. The former in particular is bound to be controversial, and we must have a reasonable time to get it through.

8. I think we can complete the programme we have set ourselves, if necessary by sitting into the first part of August and having a spillover of about three weeks in October. There will be some unavoidable inconvenience to the Lords. I see no prospect of any further substantial bills being added to the programme.

9. I am copying this minute to Cabinet colleagues, the Attorney General, the Lord Advocate, the Minister of Transport, the Chief Whips of both Houses and the Minister of State MAFF. I am also sending a copy to Sir Robert Armstrong.

N.S.J.S.

N. St.J.S.  
21 January 1980

GOVERNMENT BILLS 1979/80

(excluding finance and consolidation bills)

POSITION AT 15.1.80

1. Bills already enacted
  - Education
  - Kiribati
  - European Assembly (Pay and Pensions)
  - European Communities (Greek Accession)
  - Shipbuilding
  - Pensioners' Payments and Social Security
  - Isle of Man
  - Charging Orders
  - Southern Rhodesia
  - Zimbabwe
2. Bills Awaiting Royal Assent
  - Bail Etc (Scotland)
3. Bills through Commons and in Lords
  - Papua New Guinea, Western Samoa and Nauru
  - Protection of Trading Interests
  - Petroleum Revenue Tax
4. Bills Awaiting Report and Third Reading in Commons
  - Companies
  - Competition
  - Bees
  - Industry
5. Bills Committed to Commons Standing Committee
  - National Heritage
  - Education (No 2)

Cont...

- British Aerospace  
 Transport  
 Civil Aviation  
 Employment  
 Housing  
 Social Security  
 Tenants' Rights, Etc (Scotland)
6. Bills Awaiting Commons Committee  
 Health Services  
 Limitation Amendment
7. Bills Awaiting Second Reading in Commons  
 Insurance Companies  
 Consular Fees  
 Highlands and Islands Air Services (Scotland)  
 Law Reform (Miscellaneous Provisions) (Scotland)
8. Bills in House of Lords and still to come to Commons  
 Police Negotiating Board  
 Criminal Justice (Scotland)
9. Bills still to be introduced  
 Port of London (Financial Assistance)  
 New Hebrides  
 Coal Industry  
 Local Government, Planning and Land (No 2)  
 Broadcasting  
 Petroleum and Submarine pipelines (Amendment)  
 Energy Conservation  
 International Organisations (Amendment)  
 Contempt of Court  
 Remuneration of Teaching Staff (Scotland)  
 Matrimonial Homes (Rights of Occupancy) (Scotland)

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CABINET

## LIMITED CIRCULATION ANNEX

CC(80) 3rd Conclusions, Minute 6

Thursday 24 January 1980 at 10.00 am

PUBLIC  
EXPENDITURE

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(80) 4) describing the economic background to the public expenditure problem, the Government's monetary strategy and the available methods of monetary control.

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economic and  
monetary  
background

previous  
reference:  
C(79) 25th  
conclusions,  
Minute 6

THE CHANCELLOR OF THE EXCHEQUER said that the world and domestic economic outlook had deteriorated since the Cabinet's previous discussion. The Finance Ministers of all the main industrialised countries shared the view that there would be little growth in the world economy in the coming year; and each rise in the price of oil worsened the prospect. Reduced expectations of the level of North Sea oil output in the next 2 years would adversely affect the prospects for the United Kingdom, and any increased revenues which might accrue from rising oil prices would be offset, in the same period, by reduced activity in our export markets. It was virtually certain that this year's Public Sector Borrowing Requirement (PSBR) would prove to be higher than the £8.3 billion budgeted for in June 1979 and, unless action were taken, might rise significantly in the next two years. In addition the current steel strike would add to the PSBR in the first half of 1980 and reduce national output. He had examined a wide range of suggestions made for direct controls of credit, including action on credit cards, but had come to the conclusion that, while they would require a new bureaucratic apparatus and perhaps new legislation, they could have no more than the most marginal effect on the level of credit because of the ease with which the market could now develop alternative channels of credit outside controls. There was no escape from fundamental causes and the solutions appropriate to them. A large PSBR was the prime cause of high interest rates. High interest rates were incompatible with growth. The high rate of interest payable on new borrowing and on re-financing old borrowing imposed a growing burden on public expenditure and compounded the difficulty. The only alternative to reducing public expenditure was to increase taxation. Unless public expenditure could be reduced, the outlook for further reductions in direct taxation was bleak. Reduced taxation and lower interest rates were the key to the success of the Government's strategy to resume growth and control inflation.



In discussion the following points were made:-

- a. Although there was a respectable argument for allowing the PSBR to increase during a recession, this argument had much less force when the PSBR was already at much too high a level. The previous Government had doubled the National Debt during its period of office, and continued accretions of £10 billion a year or so to this debt meant that the cost of servicing it had become a major item in the public expenditure programme. In addition the present level of the PSBR was an engine for inflation, because the level of borrowing required could not be met from genuine savings, and a disincentive to industrial investment because of the level of interest rates it imposed.
- b. Direct controls of credit would have little or no effect on the level of interest rates. The roots of the problem lay in the huge appetite of the Government and public authorities generally for borrowed money. The effective remedy was to get spending down.
- c. Despite the explanations in the Chancellor's paper, the link between present actions and future prospects was still not clear. The Cabinet would need fuller information on the medium-term economic prospect on present policies, if they were to be able to judge whether the present strategy offered a reasonable prospect of bringing the PSBR, interest rates and inflation to acceptable levels in two or three years' time. It might be that much more severe action on public expenditure was required now, and could be shown to be tolerable, if it offered a real prospect of substantial improvement in the future.
- d. There were severe practical and political limitations to the extent to which public expenditure could be cut. It might be better for the Government to abandon, at least in the short term, its expectations of reducing taxes. On the other hand it was argued that without further cuts in public expenditure real rates of tax might have to rise. Such an outcome was to be avoided if at all possible.
- e. The adverse effect of high interest rates on investment, particularly on small businesses, was a major obstacle to economic development. A reduction in public expenditure which brought down the PSBR and with it the level of interest rates was an essential condition of recovery. But it would not be enough by itself. The many other rigidities and restraints on enterprise in the economy would need to be tackled as well.

f. The lack of public awareness of the seriousness of the situation was a hindrance to action. Considerably more effort could be devoted to bringing home the message that the Government's actions in cutting public expenditure were in the national interest, and fully necessitated by the facts of the situation, and not simply the application of a theoretical doctrine.

THE PRIME MINISTER, summing up the discussion, said that the Chancellor of the Exchequer's memorandum did not call for specific decisions, though its analysis was accepted by the Cabinet as constituting the background to their discussion of public expenditure.

The Cabinet -

Took note of the Chancellor of the Exchequer's analysis of the economic outlook, as the background to their discussion of public expenditure.

Cabinet Office

25 January 1980

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LIMITED CIRCULATION ANNEX

CC(80) 3rd Conclusions, Minute 7

Thursday 24 January 1980 at 10.00 am

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PUBLIC  
EXPENDITURE

Previous  
reference:  
CC(79) 25th  
Conclusions,  
Minute 6

The Cabinet considered a memorandum (C(80) 3) by the Chancellor of the Exchequer and the Chief Secretary, Treasury, about further reductions in the planned levels of public expenditure from 1980-81 to 1983-84. They also had before them a memorandum by the Chancellor of the Exchequer and the Secretary of State for Social Services about the November 1979 uprating of retirement pensions (C(80) 6); a memorandum by the Secretary of State for Employment about special employment measures (C(80) 5), and a memorandum by the Chief Secretary, Treasury (C(80) 7), covering some statistics about the deployment of local authority manpower.

THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet had already agreed to reduce the planned levels of public expenditure by £1 billion in 1980-81 and by £2 billion in each of the subsequent years in addition to the reductions from previous plans agreed in the autumn. These sums excluded any reductions which might be negotiated in the United Kingdom contribution to the budget of the European Community. The cash limits to be imposed on expenditure in 1980-81 would, if present expectations of inflation were borne out, impose a further reduction in the volume of expenditure in that year; but this could not be calculated in advance. Meanwhile, savings of some £492 million in 1980-81, and of £1,363 million in 1981-82, had been identified and tentatively agreed with the Ministers concerned, as listed in Annex A to his paper C(80) 3. The changes he proposed in Child Benefit would yield a further £150 million in 1980-81 and £400 million in subsequent years. Since his paper was circulated, however, it had become clear in discussion with other colleagues that these savings would bear too heavily upon the recipients of these benefits. If these reductions were to be in part forgone, others would have to be found instead. His paper identified a number of other areas where further savings might be sought, but it was clear that every Department would have to find its share.

In discussion it was stressed that final decisions must be taken at the next meeting of the Cabinet, in order to keep to the Budget timetable. Further bilateral discussions with the spending Ministers would continue in the meantime. Some of the savings provisionally identified by the Chancellor of the Exchequer were politically very difficult, and there were probably other and less damaging economies which could be made, but it was essential to come as close as possible to the Cabinet's original targets for reductions in expenditure.

The Cabinet then turned to the individual programmes.

Security

The Government was committed by a Manifesto pledge to protect retirement pensions, which accounted for almost two-thirds of the cost of social security benefits, against increases in prices. There was no comparable pledge to maintain the value of short-term benefits. The Ministerial Committee on Economic Strategy had already decided that short-term unemployment and related benefits should be taxed, starting in 1981 or 1982, and proposals were in preparation for the taxing of short-term sickness benefits. Meanwhile, it would be reasonable to reduce the real value of short-term benefits by approximately the amount of the tax to be charged. The paper proposed that, to achieve this, short-term benefits should be uprated by 10 percentage points less than the movement in prices (if prices increased by 15 per cent over the year, benefits would be uprated by only 5 per cent). It was also proposed to abolish the earnings-related supplement, though it was arguable that this could not take effect before 1982 without breaching contractual rights. This series of measures would however bear especially heavily on the unemployed. In the extreme case, some families would lose up to half their income. Alternatively, it might be possible to apply a smaller reduction of the uprating in the value of a wider range of benefits; such a measure could be held to be consistent with the Manifesto pledge if it protected beneficiaries against price movements but not against the effect of increases in indirect taxation. This more uniform approach would be politically more acceptable if the value of personal tax allowances was not increased by the full amount of the movement in prices, though this would require an Order to override the existing "Wise-Rooker" provision in legislation. This approach would help in breaking the cycle of inflation, whereby an increase in the Retail Price Index led automatically to increases in certain items of public expenditure and taxation. In a situation where those at work were not protected against movements in prices, those out of work (however deserving their case) could not expect full protection either. Without such a change in policy, there was a risk of a continued, remorseless shift in resources from the productive to the unproductive

sections of the community. The Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer and other Ministers, should consider these matters further and report back to the Cabinet.

It was reported that the Government was coming under increasing pressure in Parliament to say whether the "earnings shortfall" in the November 1979 uprating of benefits would be made good. It would be inconsistent with the other proposals before the Cabinet to do so. There was no statutory requirement to uprate these benefits in line with the actual movement in earnings, which had unexpectedly proved to be higher than the forecast increase in prices on which the uprating had been based.

The proposed increases in prescription charges would, given the exemptions for the unemployed and others, tend to narrow the gap between the spending power of those in work and those out of work. This was undesirable in itself, but the increase in charges might be necessary to achieve the full reduction in public expenditure being sought.

There was little room for further reductions in the level of expenditure on primary and secondary education. Support for the polytechnics should be re-examined, but this was local authority expenditure controlled primarily through the Rate Support Grant (RSG). It was already proposed to uprate student grants by less than the full amount needed to keep pace with inflation.

While it was hoped that the Government would successfully conclude the current negotiations, it was not yet known what changes would take effect within the calendar year 1980 or the fiscal year 1980-81. It was necessary to go for as nearly as possible the full amounts of the reductions agreed by the Cabinet in December, without taking account of possible reductions in the net contribution to the Community budget.

Whether or not uniform cuts were applied to all programmes, there was a case for particularly close scrutiny of Civil Service manpower costs. This might extend to a re-examination of the structure of the Service and of manning needs in the various grades. The Civil Service Department would continue to co-operate with other

Departments in the search for economies. The Minister of State, Civil Service Department, would in due course circulate a further paper on this and on other means of economising on manpower costs in the Civil Service. But it was not just a matter of efficiency and economy in the use of manpower; to achieve savings it was also necessary to cut out some of the functions on which manpower was presently engaged.

Separate discussions were taking place about the size of the defence budget. The Government had obligations to its allies and to the Armed Forces which had to be taken into account; but it was difficult to exempt defence from the cuts at a time when so many politically unpopular decisions had to be taken and domestic pledges were also at risk. The Cabinet would need to consider these matters further at its next meeting.

Despite the exemption previously accorded to the law and order programmes, it was necessary that reductions should be made in this area, too, not excluding the possibility of cuts in police manpower. The Home Secretary had already offered savings on the fire service but would examine all of his expenditures to see what further savings might be possible. There was general agreement that he should not be asked to reduce police strengths.

It was generally agreed that the housing programmes, although they had been considerably reduced already, offered significant scope for further reductions, and that these would be politically less damaging than many of the other proposals before the Cabinet. There was a strong argument for making bigger increases in council house rents, at a time when private house-owners were being faced with substantial increases in their mortgage repayment liabilities. There was also a case for further reductions in the level of new starts, although it was noted that a considerable proportion of the new dwellings concerned were for the old people and the handicapped. There was a strong case for big reductions in expenditure on council house improvements, not excluding home insulation.

While there was undoubtedly room for further reductions in local authority staffs an across-the-board reduction in manpower would largely duplicate reductions which were already being sought on individual programmes. In any case the main instrument of control was the RSG, on which the Cabinet had already taken its decision, so that the opportunity for a further general reduction for the following year had already passed.

The reductions identified by the Chancellor of the Exchequer were broadly acceptable, but additional expenditure might be needed on the extension of some of the present special employment measures, and at a time of mounting unemployment it would be difficult to eliminate these altogether. These bids would be further considered by the Ministers concerned.

Further reductions might be possible within the programmes of the Department of Industry.

A case had already been made for additional expenditure on remedial measures in areas affected by possible closures of steel plants. The Secretary of State for Wales should pursue his proposals further with the Secretary of State for Industry and the Chancellor of the Exchequer.

Further reductions might be possible in the transport programmes.

The scope for further reductions was limited by our international obligations of multilateral aid, and by our existing bilateral commitments, but the aid programme should nevertheless be re-examined, with a view to the identification of further savings. This re-examination should extend to the cost of administration.

Small reductions might be possible in the level of legal aid in criminal cases. The Lord Chancellor would consider the matter further.

Apart from the possible revaluation of personal tax allowances, there was a good case for increasing indirect taxes, particularly on petrol, by more than the recent increases in prices. This might be better understood by the public as a crisis response to financial pressures than some of the other measures before the Cabinet. The Chancellor of the Exchequer might wish to consider this possibility in framing his Budget proposals.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would defer final conclusions until its meeting in the following week. Meanwhile the Ministers concerned should continue to examine, in consultation with others as necessary, the areas of public expenditure for which they were responsible in order to identify the necessary savings. The Cabinet's discussion had however shown clearly that no programme could be exempt from making a contribution. It had also shown that the Cabinet were disposed to moderate the proposals for reductions in social security benefits made by the Secretary of State for Social Services and to look for a significantly greater contribution than that at present agreed from the programmes of the Secretary of State for the Environment.

The Cabinet -

1. Agreed to resume their discussion the following week.
2. Agreed that the "earnings shortfall" in the November 1979 rates of long-term social security benefits should not be made good, and that this decision should be announced as soon as possible.

Cabinet Office

25 January 1980