



Subject on
Econ Pol: P7 Public Expenditure

The
Domestic
Monetary Policy
MODBA
to see

10 DOWNING STREET

From the Private Secretary

17 January, 1980.

As you know, the Chancellor called on the Prime Minister this morning. He first reported on the public expenditure bilaterals. He was still a long way short of reaching agreement on savings which would total £1,000 million in 1980/81. It would be necessary to obtain additional savings on the housing programme over and above what the Secretary of State for the Environment seemed willing to offer; he would probably have to press for the limitation of child benefit uprating to 50p - even though this would be difficult because of the associated need to limit the uprating of the child supplement on supplementary benefit; it would probably be necessary to look for further savings from the education programme; the aid programme, and also from defence. In the latter connection, the Secretary of State for Defence had written to the Chief Secretary saying that further savings were impossible, and he (the Chancellor) was intending to reply to the effect that defence could not be immune from the latest public expenditure exercise. However, he wanted to have the Prime Minister's view on whether he should proceed in this way.

not attached.

The Prime Minister said that it would be right to look for savings on the defence programme, but procedurally it would be better if the Chancellor were to see Mr. Pym - rather than write to him. She also suggested that the Home Secretary might be invited to the meeting. As regards the possible scope for savings, the Prime Minister drew the Chancellor's attention to a letter from the editor of Jane's Fighting Ships (copy enclosed). She also referred the Chancellor to briefing which Sir Derek Rayner had provided her with before her recent visit to the Ministry of Defence. (I enclose a copy of the brief; but I should emphasise that this was prepared for the personal use of the Prime Minister, and the fact that you have a copy should not be revealed to the Ministry of Defence.) - not attached.

The Chancellor also reported briefly on the monetary situation. He was proposing to authorise the issue of a new tap stock the following day, in order to provide further funding

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in February - which would be the last banking month before the Budget. He was also considering with the Governor the possibility of issuing some kind of indexed stock: there was a case for considering this because of the heavy burden which the current high cost of borrowing would impose on future generations. The Prime Minister took note.

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