

PPS.

PRIME MINISTER

NOTE PREPARED FOLLOWING A MEETING OF THE
FINANCE COMMITTEE HELD IN COMMITTEE ROOM
14 AT THE HOUSE OF COMMONS AT 6.00 P.M.
ON TUESDAY 27TH NOVEMBER, 1979

1. William Clark was in the Chair, and approximately 35 Members were present.
2. Terence Higgins introduced a discussion on Public Expenditure. He said:-
 - (a) Monetary policy was vital.
 - (b) The key to monetary policy was the level of public expenditure and the amount of the P.S.B.R. At present, both were too high.
 - (c) The White Paper on Public Expenditure 1980/81 was a disappointing document. In effect, the White Paper was proposing an overall increase in Public Expenditure next year, even though there would be a fall in the nation's wealth.
 - (d) He was in favour of the policy of the State selling assets to private enterprise.
 - (e) In the context of the need to reduce Public Expenditure and the P.S.B.R., Britain's inequitable contribution to the E.E.C. Budget assumed an even greater importance.
 - (f) There should be further substantial reductions in public

expenditure over the lifetime of this Parliament.

3. Peter Hordern made the following points:-

(a) Next year's P.S.B.R. was too high, particularly because there were now no Exchange Controls. In the past, when there was Exchange Control, it was easier for the Government to sell its own debt.

(b) He suggested three specific areas where economies could be made:-

(i) In the administration of the National Health Service.

(ii) In the arrangements for the payment of index-linked pensions to former employees of the Nationalised Industries and of Local Authorities. He pointed out that these pensions are paid out of funded schemes, instead of "pay as you go". Furthermore, these pensions are index-linked, in contrast with all other pension funds in the Private Sector. According to Peter Hordern, the Government Actuary has estimated that there would be an annual saving of £2,000 million if nationalised industries and Local Authorities' pensions were paid as the need for them arose, just as is the case with the Civil Service.

(iii) Economies could be made in industrial support. Specially favoured treatment is given at present to manufacturing industry, at the expense of service industries.

4. Jock Bruce-Gardyne forecast that the out turn for the P.S.B.R. next year might be even higher than the Government was

envisaging - his own forecast was £10,000 million. In his view, that was dangerously high. He argued that if the sale of public sector assets was disregarded, there was a 4% increase in public expenditure in the current financial year, which was wholly unacceptable. He suggested two areas of public expenditure where savings must be made:-

- (a) Transfer Payments - the automatic up-rating of benefits at a time when wage settlements were likely to be below the rate of inflation was obviously absurd.
- (b) Pay Comparability was leading us down a dangerous road; Professor Clegg ought to be sacked.

5. Eric Cockeram said that Public Expenditure was still too high. He suggested two areas for cuts:-

- (a) The Rate Support Grant.
- (b) Savings could be made in all our costly planning procedures and Training Boards.

6. John Browne said that the rate of growth of the money supply was too high.

7. Ivan Lawrence said that if there was to be any possibility of continuing with income tax reductions, public expenditure must be reduced.

8. Anthony Beaumont-Dark praised the Government's gradualist approach. He said that it had been a substantial achievement merely to stabilize public expenditure. He said that he did not think that social cohesion could be preserved if there were cuts

of the kind for which others had spoken. Nevertheless, he was in favour of a gradual further reduction in public expenditure.

9. Peter Emery said that major policy changes were required in order to achieve the essential further cuts in public expenditure. He said that we should not index link unemployment benefit.

10. Tony Nelson said that the total of the national debt as a percentage of G.N.P. was too high. He favoured a substantial reduction in the P.S.B.R., and further expenditure cuts.

11. Cyril Townsend said that he was far from clear where further cuts should be made. He thought that any further cuts would be socially divisive.

12. John Townend (recently elected as Secretary of the Finance Committee in place of Geoffrey Dodsworth) argued for further cuts in public expenditure, from which the whole subject of Transfer Payments could not and must not be exempted.

13. Charlie Morrison said that, on the whole, people liked public expenditure. He was in favour of bigger cuts now, so that it would be possible to increase the expenditure which the public liked nearer the Election. He pointed out that we were getting very substantial criticism at the moment, without having made any real cuts. He said that if we were going to get the criticism, we might as well make the cuts.

14. Brandon Rhys-Williams said that we ought not to attack Transfer Payments, although he recognised that there was still

some overspending.

15. John Wheeler said that we had still made no effective assault upon the swollen bureaucracy.

A. It was possible to tell, from sounds of approval and disapproval, that the overwhelming majority of Members present would not merely assent to further reductions in Public Expenditure, but would welcome them. The clear impression which I have from our Backbenchers, from soundings taken over the past three weeks outside the Finance Committee, is that a large majority would welcome further cuts in public expenditure.

B. There is widespread misgiving about 17% M.L.R. - not because of any weakening in the Party's resolve to defeat inflation - but because 17% M.L.R. is the clearest indication that the P.S.B.R. (actual and prospective) is still too high. If further reductions in public expenditure for 1980/81 were to be announced - as the precursor to a fall in interest rates - that would achieve overwhelming support in the Parliamentary Party. I believe that it would make economic sense as well.

C. 17% M.L.R. strengthens your hand and that of Treasury Ministers in re-opening the question of public expenditure in 1980/81.

D. I discussed the mood of the Parliamentary Party on this subject with the Chief Whip last evening. He and I have an identity of view on this subject. I am sending to him a copy of this Note.

28th November, 1979

Ian Gow

c.c. The Right Honourable Michael Jopling, M.P.