

18 November 1980
Policy Unit

PRIME MINISTER

PUBLIC EXPENDITURE - CABINET

1. David drew my attention to Geoffrey's final paragraph 13 in his paper C(80)72. This reads as follows:

"I consider it essential to the maintenance of our economic strategy and the credibility of our commitment to reduce public expenditure in the medium term that we should make the greater part of the additional cuts now proposed, so that the totals are close to those shown for Case B."

2. It seems to us that Geoffrey is in danger of taking up a last-ditch position in which the entire economic strategy and thus the Government's credibility depends on success or failure with a few hundred million of public spending.
3. While it has obviously been right to press relentlessly for the largest possible cuts, we now seem to be in danger of taking up a position, and making statements which will later be leaked in such a way as to make Geoffrey's own position almost untenable.
4. We suggest, therefore, that you should perhaps set the stage for Cabinet discussion by deliberately cooling it down on the following lines:
 - There are some encouraging signs. Inflation is coming down faster than expected, so far; pay claims are moderating; we are now resolved on trying to get a really moderate outturn for public services pay.
 - But we do have big problems in other areas. Nationalised industries have posed big problems; the recession is deeper than expected and ^{is} thus inevitably putting further pressure on the PSBR.
 - The shortfall on public spending cuts is therefore a very serious matter. To the extent that we fail to cut, then we face unpopular tax increases, because if we can't control

public spending, we must pay for the excess out of tax revenues. The pressures and problems facing colleagues are fully understood, but let us do our best to give the Treasury team as much as possible of what it is looking for.

5. With Geoffrey and Francis Pym both taking up last-ditch positions, I feel that we may be getting things out of perspective. At one extreme there is the sad example of past Governments, which have simply been unable to sustain the disciplined pressure on public spending for years on end and have simply fudged their way through and abandoned all their goals the moment it got really difficult. At the other extreme, and just as absurd, would be a brittle commitment to particular figures which would be elevated and invested with such significance that any departure from them would be presented (and interpreted by the press) as destroying individual reputations and signalling a complete collapse of Government policy and determination. In the middle there is the tough but balanced position, recognising that we cannot win ten out of ten on every issue, that the problems faced are immensely difficult and that there will be no letting up on the long-term aims.



JOHN HOSKYNS