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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 15 NOVEMBER 1979

at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

t Hon William Whitelaw MP tary of State for the Home Department	The Rt Hon Lord Hailsham Lord Chancellor
t Hon Lord Carrington tary of State for Foreign and nonwealth Affairs	The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer
t Hon Sir Keith Joseph MP tary of State for Industry	The Rt Hon Francis Pym MP Secretary of State for Defence
t Hon Lord Soames President of the Council	The Rt Hon James Prior MP Secretary of State for Employment
t Hon Sir Ian Gilmour MP Privy Seal	The Rt Hon Peter Walker MP Minister of Agriculture, Fisheries and Food
t Hon Michael Heseltine MP tary of State for the Environment	The Rt Hon George Younger MP Secretary of State for Scotland
t Hon Nicholas Edwards MP tary of State for Wales	The Rt Hon Humphrey Atkins MP Secretary of State for Northern Ireland
t Hon Patrick Jenkin MP tary of State for Social Services	The Rt Hon Norman St John-Stevas MP Chancellor of the Duchy of Lancaster
t Hon John Nott MP tary of State for Trade	The Rt Hon David Howell MP Secretary of State for Energy
t Hon Mark Carlisle QC MP tary 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

Hon Norman Fowler MP of Transport	The Rt Hon Michael Jopling MP Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong	
Mr M D M Franklin	(Items 2 and 3)
Mr P Le Cheminant	(Item 4)
Mr P Mountfield	(Item 4)
Mr P J Harrop	(Item 1)
Mr R L Wade-Gery	(Items 2 and 3)
Mr D E R Faulkner	(Item 1)

CONTENTS

MENTARY

in the
of Commons

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was noted that the business might need to be revised if, following the statement to be made by the Chancellor of the Exchequer that afternoon, the Opposition requested an economic debate. It would be difficult not to concede such a request, but it might be preferable to postpone a debate until the week beginning 26 November.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Patriotic Front had earlier that morning agreed to the British proposals for the transition to independence. He would circulate to the Cabinet details of the arrangements proposed, which had not been significantly modified since being tabled. The British delegation was now circulating proposals for the cease-fire arrangements; negotiations on these might prove the most difficult of all. It would have been unfortunate if, as had seemed possible, the Conference had broken down immediately after the passing of the Enabling Bill; but in the event the Bill seemed to have had the effect of awakening the Front's leaders to the dangers of not reaching an agreed settlement. No serious difficulties had yet arisen at the United Nations, where Britain's European allies had offered welcome support.

The Cabinet -

1. Took note of and congratulated the Prime Minister, the Foreign and Commonwealth Secretary and the Lord Privy Seal on the considerable progress made towards a settlement of the Rhodesian problem.

THE FOREIGN AND COMMONWEALTH SECRETARY said that, following the freeze on Iranian deposits in the United States, difficulties might arise if the United States Government sought to restrict or deny the Iranian authorities access to their deposits with American banks in London, which the United States Government regarded as subject to American jurisdiction. This could lead to Iranian retaliation against British interests. Urgent consultation would be needed with other European Economic Community Governments facing a similar problem.

THE CHANCELLOR OF THE EXCHEQUER said that he was in touch with the United States Secretary of the Treasury, Mr William Miller. The Americans were anxious for British support, but the question whether deposits in United States banks in London were subject to the extra-territorial jurisdiction of the United States was one which could be resolved only by the British courts; the answer would possibly depend on the terms upon which each deposit was made and accepted. The Government did not have the power to prevent British courts ordering United States banks in London to release depositors' assets, and any move to take new powers in the matter might have serious repercussions for the Euro-currency market and for London's position as a financial centre. The United States Government's action could indeed have considerable implications for the role of the dollar as a reserve currency.

In the course of a brief discussion it was recognised that the Secretary of State for Trade and the Attorney General would need to be ready to deal with questions on this subject which might be raised in Parliament during the current Second Reading of the Protection of Trading Interests Bill.

The Cabinet -

2. Took note.

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3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, in the event, little progress had been made at the Council of Ministers (Agriculture) on 12-13 November. The Italians had not been ready to settle the wine package. The French had not removed their illegal restrictions on imports of sheepmeat but they had shown concern about their position and, after further consultation with the Commission, it was likely that they would announce their intention to respect the ruling of the European Court within the next few days.

THE SECRETARY OF STATE FOR ENERGY said that, while we were continuing to receive oil from Iran, the American embargo on Iranian oil imports would affect 2.4 per cent of their requirements of crude oil. The United States was now preparing a new set of proposals for demand restraint which they would present to a meeting of the International Energy Agency early in December and this might well reopen the commitments which the European Economic Community had entered into.

THE PRIME MINISTER said she would be meeting the President of the French Republic on 19 and 20 November. Serious differences still remained between the French and ourselves over the United Kingdom's net contribution to the Community Budget; these differences would not necessarily be entirely resolved during the course of the visit. President Giscard had agreed to a joint Press Conference at the end of the visit.

The Cabinet -

Took note.

ECONOMIC SITUATION

4. THE PRIME MINISTER said that the Chancellor of the Exchequer would be making an announcement about monetary policy in the House of Commons that afternoon. There had been much Press speculation about this. The measures which the Chancellor of the Exchequer would announce were severe, but were essential for the maintenance of long-term confidence in the Government's economic policies. He needed the wholehearted support and help of all Ministers in reassuring the Government's supporters in Parliament.

THE CHANCELLOR OF THE EXCHEQUER said that the measures which he would announce that afternoon had been made inevitable by a series of unexpected developments. The money supply figures for the previous month had been extremely disappointing. The public sector borrowing requirement (PSBR), which was always higher in the first half of the year than in the second, was now seriously out of line, and without corrective action was likely to exceed £9 billion in the year as a whole. This was partly the result of industrial action earlier in the year by Customs and Excise staff which had delayed the receipt of Value Added Tax (VAT) and partly the result of action by Post Office staff which had delayed the payment of telephone bills to the extent of about £1 billion. Other factors, including increased expenditure, had contributed to the deterioration. To fund borrowing on this scale required a high level of market confidence. This had been shaken by a number of developments, including the poor money supply figures, and the poor trade figures announced the previous day. The Retail Price Index to be announced later in the week would not help. It was essential now to take strong measures to restore control over money supply, and this required a steep increase in the Bank of England Minimum Lending Rate (MLR). Market rates had already risen above 16 per cent, and the Government could not risk undershooting, if it was to be able to sell Government stock on the scale which would be necessary in the coming weeks. He had therefore agreed with the Governor of the Bank of England that MLR should be increased that day to 17 per cent. He would announce the same afternoon a package of supporting measures, including changes in National Savings, the rolling forward of the present monetary targets for a further six months to October 1980, and an extension of the existing controls on bank lending (the 'Corset') for a further six months. He would also say that the Government was considering the possibility of moving to a system of monetary base control to replace the existing system. He had considered whether there was any fiscal alternative to these tough monetary measures. It was too late to affect significantly the level of public expenditure in the current year. He had ruled out any changes in VAT or on other indirect taxes because of their effect on the Retail Price Index and thus on wage demands. The one fiscal measure open to him was to bring forward payments of Petroleum Revenue Tax (PRT) by two months, yielding about £700 million extra in the current financial year, with a further £300 million in the following year. This change would require legislation. The combined effects of these measures should be to allow the Government to fund the PSBR and restrain the growth in money supply.

In discussion, there was general support for the Chancellor of the Exchequer's proposals. It was recognised that movements in interest rates both at home and overseas, and the recent increase in the money supply, rendered these inevitable. In presenting the measures, it would be necessary to place them in the wider context of rising world interest rates which in turn were, at least partly, a response to the inflationary pressures generated by movements in world oil prices. It would also be important to emphasise the part played by industrial action earlier in the year in the temporary increase in the Government's borrowing requirement.

In further discussion, it was suggested that these measures would not bring home to the British public the seriousness of the situation. Many individuals would not feel a direct or immediate effect, although increases in mortgage rates might ensue in due course. Meanwhile, consumer spending remained high, helped by the spread of credit card facilities and the availability of bank loans. Consumer spending did not respond rapidly to increases in interest rates. There was a case for fiscal action which would bring the message home, although it was recognised that anything which increased the general level of prices would have some damaging effect on wage claims. However, the measures would hit the company sector rapidly and hard. It would be especially serious for small firms. Company liquidity would be greatly reduced. This might have some effect in encouraging some companies to resist excessive wage claims though others might prefer to settle quickly and leave their financing problems to be solved later. In any event a sharp increase in bankruptcies and redundancies must be expected next year. This made it the more important that the Government should have positive measures available to increase investment in wealth-creating activities. Against this it was argued that industry had already been relieved of many burdens since the Government took office, and the scope for expenditure on additional incentives to industry was severely limited. They could be afforded only if further reductions were made in planned levels of expenditure, part of the benefit of which could go to reduce the PSBR and part to the creation of additional incentives. In the longer term, there was a case for re-examining the overall level of public expenditure once again, particularly the most rapidly growing programmes like social security which had hitherto been regarded as untouchable.

In further discussion, it was noted that the proposed increases in PRT would need careful presentation, and should if possible be explained to the oil companies in advance.

In discussion of presentation, it was agreed that a balance must be struck between explaining the seriousness of the situation, and avoiding excessive gloom and thus undermining confidence in the Government's ability and determination to succeed with its economic strategy.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet completely supported the measures which the Chancellor of the Exchequer would announce that afternoon. The Government's economic strategy would take some time to work through, and it was important meanwhile that Ministers should do all that they could to maintain confidence in the longer term prospects.

The Cabinet -

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

Cabinet Office

15 November 1979