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Prime Minister
This note from the
Cabinet Office summarises
the Chancellor's proposals
at Play A and assumes
how you should respond.
Content?

P.0514

MR LANKESTER

cc: Mr Moore
Mr Wright

Yes - after para
...
M.

TAX AND PUBLIC EXPENDITURE - THE NEXT STEPS

Play A

You asked for advice on the Chancellor's minute of 25 June to the Prime Minister about this year's public expenditure operation. In it the Chancellor makes three proposals:-

(a) That he should present Cabinet on 23 July with "one or possible more" packages which would illustrate the potential trade-offs between tax and public expenditure next year and in the succeeding years to 1984-85.

(b) That the objective on 23 July would be "to secure colleagues' general agreement" to a broad view of the sort of reductions which might be made from spending in Cmd 8175 together with an indication of the areas in which these reductions might be found.

(c) That looking further ahead the Prime Minister might envisage establishing (later) a small committee of Ministers which could
(i) have a preliminary look in late September/early October at the specific proposals for public expenditure cuts which the Chancellor will be putting to the Cabinet on 20 October; and (ii) after the discussion on 20 October, follow through outstanding points with power to "settle matters". The explicit purpose would be to prevent colleagues, faced with unpalatable cuts to their programmes, appealing again to the full Cabinet.

2. The Chancellor's first proposal (to provide the July 23 Cabinet with a preliminary view of the likely trade-offs between taxation and expenditure) seems both sensible and necessary. There are of course risks (especially of leaks of divergencies of view on strategy or of the Government's specific taxation objectives) but nothing less is likely to put sufficient drive

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behind the search for public expenditure savings or to satisfy the critics who say that public expenditure cannot be looked at apart from the broader financial outlook.

3. The second proposal (seeking a broad-brush endorsement of the required scale of public expenditure cuts at the July meeting) is what that meeting is all about. At the same time the Chancellor should not mislead himself (perhaps there is no danger of this) into thinking that he is likely to get conclusions which are "hard" enough to be prayed in aid against spending Ministers later in the year. The latter are bound, in self-defence, to hold open agreement on individual programmes until they can see the Chancellor's specific proposals against the background of more up to date assessment of need in 1982-83 than will be possible this July.

4. The Chancellor is not seeking a decision yet on his proposal for the establishment of a small "Star Chamber" committee. Such committees have of course been used in previous public expenditure cuts operations and can be most useful in removing detailed points from the agenda of the full Cabinet. But again the Chancellor should not mislead himself into thinking that members of the Cabinet, whether as spending Ministers or as politicians, will allow major political issues to be decided other than in full Cabinet. Obviously a lot will depend on the scale of the cuts which turn out to be necessary and the political sensitivity of the particular cuts proposed. But given that the "easy" programmes have been heavily squeezed already, and that defence is largely settled, any major new reductions are bound to call in question both politically sensitive areas of expenditure and the Government's past commitments. Luckily no decisions on this procedural proposal are needed yet.

5. My recommendation therefore would be that the reply to the Chancellor's minute should:-

- ✓ (a) Welcome his intention to illustrate tax/expenditure trade-off as a necessary part of the discussion of public expenditure in Cabinet on 23 July.
- ✓ (b) Endorse his view of the objectives of that meeting.
- ✓ (c) Agree that the possibility of establishing a small group of Ministers to assist in the public expenditure operation (and the

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remit that any such group should be given) should be borne in mind for decision in September. (The Cabinet meeting already arranged for 15 September to consider the appropriate cash limit factors for next year would provide a suitable occasion for the idea to be launched.)

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

P Le Cheminant

Cabinet Office
30 June 1981