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CC(81) 31st  
Conclusions

COPY NO 79

CABINET

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

TUESDAY 15 SEPTEMBER 1981

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Education and Science

The Rt Hon Francis Pym MP  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Northern Ireland

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Peter Walker MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP  
Lord Privy Seal

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Transport

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

Baroness Young  
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

Mr Norman Tebbit MP  
Secretary of State for Employment

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ALSO PRESENT

Mr Cecil Parkinson MP  
Paymaster General

SECRETARIAT

Sir Robert Armstrong  
Mr P L Gregson (Items 3 and 4)  
Mr D M Elliott (Items 1 and 2)  
Mr D J L Moore (Items 3 and 4)  
Mr R L L Facer (Items 1 and 2)

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FOREIGN  
AFFAIRS

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Namibia

Previous  
Reference:  
CC(81) 29th  
Conclusions,  
Minute 2

1. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Five-nation Contact Group had sent a message to the South African Government to ask whether they had correctly understood the South African position as a result of their talks with the United States Government. The South African tactics would probably be to play for time, but the Western countries would be in difficulties in the United Nations if they were unable to produce some ideas for a settlement. The United States Government would probably be willing to put pressure on the South Africans in order to avoid this risk. The debates in the United Nations General Assembly on the previous day had gone surprisingly well, with 25 countries abstaining on a motion urging sanctions against South Africa. This result had been helped by Soviet tactics in opposing the language of the original resolution sponsored by the Africans. A further meeting of the Contact Group would be held in New York during the following week.

Poland

Previous  
Reference:  
CC(81) 28th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that at its recent congress Solidarity appeared to have gone considerably further than previously. The fact that factory meetings had been organised in the Soviet Union to attack Solidarity was significant: it was not to be assumed to be a prelude to Soviet military intervention, but it indicated that the Soviet Government was mounting a powerful campaign to ensure that the Polish Government resisted Solidarity's demands and put the blame on Solidarity for the economic problems and food shortages. The Polish Government had asked for further food aid, and decisions might be needed shortly on further credits.

Belize

Previous  
Reference:  
CC(81) 28th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that Belize would become independent on 21 September. The Leader of the Opposition in Belize had declared himself against independence, but this represented no more than personal animosity towards the Premier, Mr Price. There were indications that Guatemala might be contemplating some form of military incursion short of a full invasion attempt, and the Secretary of State for Defence and himself had taken certain precautions to deal with the threat.

Canadian  
Constitution

Previous  
Reference:  
CC(81) 21st  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the judgement of the Supreme Court of Canada on the Federal Government's proposals to bring home the constitution from Britain without Provincial consent was not now expected until the end of September. The delay suggested that the verdict would be by a narrow majority. While some delay could be helpful in Parliamentary terms, a narrow majority for the judgement would not.

Anglo-French  
Consultations  
10-11 September

THE PRIME MINISTER said that the visit of the President of the French Republic and six of his Ministers on 10 and 11 September had been a considerable success. Monsieur Mitterrand had expressed his willingness to concentrate on trying to resolve the big problems facing the Community: budget restructuring, the Common Agricultural Policy and the Common Fisheries Policy. She had taken the opportunity to enlarge his understanding of the situation in Northern Ireland. They had discussed Third World problems and the forthcoming Summit meeting at Cancun. Monsieur Mitterrand had admitted that French aid totals were somewhat exaggerated through the inclusion of the costs of administering French overseas territories, and had praised the United Kingdom's performance, particularly in the share of aid to the poorest countries. He had shown interest in bilateral collaboration in fields of technology and scientific research in which the United Kingdom was ahead of France. The two Ministers of Transport had set up a joint working party of officials to look at eight schemes for a Channel link. A working party had also been set up to consider Concorde, and the French appeared keen to encourage contacts between Rolls Royce and the French aero engine manufacturers SNECMA.

In discussion it was noted that the new French Government were talking in terms of a "relance" of the Community. French Ministers were also taking a more positive attitude than their predecessors to bilateral co-operation in the field of nuclear power, including fast reactors. The French attitude towards the Multi-Fibre Arrangement was also close to the British. While they had expressed readiness to support a Community policy on trade with Japan, they would not in practice lightly abandon their effective national restraints on imports of sensitive goods from Japan.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

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14 September  
Foreign  
Affairs  
CouncilPrevious  
Reference:  
CC(81) 30th  
Conclusions,  
Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that, following a successful procedural discussion at the informal meeting of Foreign Ministers on 5-6 September at Broomfield Hall, the Council of Ministers (Foreign Affairs) on 14 September had had a preliminary discussion of the budget restructuring mandate, at which all member states had set out their general approach to the negotiations. There had been no surprises. While most member states had shown themselves willing to have all three sections of the Commission's mandate report discussed in parallel, the French had argued, with support from the Danes and the Irish, that the budgetary aspects should only be considered after conclusions had been reached on the development of new Community policies and the reform of the Common Agricultural Policy. He had nevertheless concluded from the chair, with German support, that although the size of any compensation could only be settled at the end, it was clear that the three main aspects of the Commission's report must be carried forward together. This divergence of views on priorities was likely to make the detailed negotiations still more difficult; it was all the more essential that the United Kingdom and Germany should stand firm and work closely together throughout.

Restraints on  
Poultry Meat  
ImportsPrevious  
Reference:  
CC(81) 29th  
Conclusions,  
Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the restrictions introduced during August against poultry meat imports, including French turkeys, on animal health grounds had led to French threats of retaliation. Since the balance of agricultural trade was heavily in their favour, they had had second thoughts and had taken the issue to the Commission. The Commission had now taken the first steps towards opening infraction proceedings against the United Kingdom, giving the Government 15 days to submit its observations on their letter of complaint. If the matter went in the end to the European Court of Justice, he considered that the Commission were likely to lose; but even if they won, the timing of the judgment was likely to be too late to upset this year's Christmas market for British turkey producers. Most recently the Commission had asked whether French turkeys would be allowed into the United Kingdom again if the French adapted their health regime to comply with the new requirements. His officials had replied that they would, once his Ministry's veterinary advisers were satisfied as to their compliance.

Common  
Fisheries PolicyPrevious  
Reference:  
CC(81) 21st  
Conclusions,  
Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, after a series of postponements and cancellations, the French had now agreed to bilateral talks on the Common Fisheries Policy at both Ministerial and official level immediately before the 29 September Fisheries Council. It was nonetheless clear that they did not expect much progress towards a settlement of outstanding problems at this Council. The evidence suggested that the French

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were engaged in delaying tactics on fish in the hope of establishing a linkage with the mandate discussions and of bringing the whole package together in a major round of negotiations next spring.

The Cabinet -

Took note.

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3. THE CHANCELLOR OF THE EXCHEQUER said that the Bank of England had acted on 14 September to increase short-term interest rates on the London money market. This could lead to increases in the banks' base lending rates. It had been necessary to take this action because of the effects on sterling of the strengthening of the dollar and, more recently, of the Deutschemerk, of the realisation of the continuing over-supply in the oil markets, of the widening differential between interest rates in the United Kingdom and in the United States of America, and because of the uncertainty over the monetary aggregates following the recent industrial action by the Civil Service. He recognised that the continuation of high interest rates in the United States of America could lead to pressure for further increases in interest rates in the United Kingdom. He would take the opportunity of the meeting of the International Monetary Fund later in the month to renew, on behalf of the United Kingdom and of the European Community, warnings of the risks that the United States Administration's economic policy created for the world economy in general, and for the European economies in particular.

The Cabinet -

1. Took note of the statement by the Chancellor of the Exchequer.
2. Took note that the Chancellor of the Exchequer was reviewing in the light of recent developments the case for the United Kingdom joining the European Monetary System, and that he would, if appropriate, make proposals at a later date.
3. Invited the Secretary of State for Energy to review, in the light of recent changes, the costs of energy to industrial users in the United Kingdom by comparison with the energy costs borne by their overseas competitors.

CASH FACTORS  
FOR THE 1981  
PUBLIC  
EXPENDITURE  
SURVEYPrevious  
Reference:  
CC(81) 29th  
Conclusions,  
Minute 4

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(81) 45) on the factors for pay and prices to be used in the 1981 Public Expenditure Survey and a memorandum by the Secretary of State for Social Services (C(81) 44) on pay and cash planning in the National Health Service (NHS) in 1982-83.

THE CHANCELLOR OF THE EXCHEQUER said that he recommended that, for the purpose of putting the public expenditure programmes for 1982-83 on to a cash basis, as previously agreed by the Cabinet, the working assumption of 7 per cent inflation between 1981-82 and 1982-83 for all costs should now be replaced by two factors: 4 per cent for pay generally, applied to settlement dates, and 9 per cent for prices generally, applied year on year. The provisional factors for costs of 6 and 5 per cent in the two following years should remain unaltered. It was necessary to adopt separate factors for 1982-83 in order to avoid distortions between programmes as a result of the wide disparity between the outlook for prices and what was appropriate for increases in earnings. The Treasury's internal forecasts pointed at present to increases in the Retail Price Increase (RPI) over the year to the fourth quarter of 1982 of about 10 per cent; the average price increases for Government spending in particular was put at  $9\frac{1}{2}$  per cent and he recommended that this should be rounded down to 9 per cent. The 4 per cent for earnings was at the bottom end of the range of 4 - 8 per cent which the Confederation of British Industry (CBI) hoped might be the outcome for earnings in private industry generally, with some settlements below that. The increase in total earnings would be less than 4 per cent where reductions in numbers had already been built in to the plans. It would be emphasised to the public that the figure was a cash expenditure planning assumption and not a pay norm. It was desirable to announce the decision immediately to avoid misleading leaks, to influence public sector pay settlements and particularly those for the local authority manuals, to provide for the basis for the Rate Support Grant settlement, and to allow for the calculation of the base-line for the public expenditure decisions which the Cabinet would be taking at their meetings starting on 20 October. In the meantime, he recommended that consideration should be deferred until October of any cash increases or reductions in particular programmes where there were strong grounds for allowing exceptionally for pay and price movements differing significantly from the general factors.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that, while he agreed with the two general factors proposed, he would wish to make recommendations, for discussion in October, for providing some additional money for the pay of certain crucial NHS staff groups directly concerned with patient care - the nurses, doctors and dentists, and some of the smaller staff groups. This would take account of the fact that, in contrast to most other public sector groups, there was no scope for financing higher pay settlements for NHS staff by cuts in services and numbers.



THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, for the reasons set out in his letter of 11th September to the Chancellor of the Exchequer, he considered it necessary to decide now whether the cash provision for local authority current expenditure in 1982-83 should allow for ('validate') the excess movement of pay and prices totalling 3 per cent in 1981-82 above the cash limits set for that year. The pay excess in particular was  $2\frac{1}{2}$  per cent above the planning level and, without allowance for it, local authority unions and employers would argue that a factor of 4 per cent for earnings would give them only  $1\frac{1}{2}$  per cent. In his view, unless the excess in 1981-82 was validated, the targets set for local authorities for 1982-83 would be both unrealistic and indefensible. He would also wish to argue for a more realistic target for the volume reductions expected of the local authorities.

In discussion the following were the main points made:-

a. There could be attractions in adopting an approach, on the lines suggested in earlier discussions by the Secretary of State for the Environment, whereby a substantial sum of money would be committed to programmes for increased investment and employment in return for lower pay settlements or, failing that, an abatement in the indexation of tax thresholds or benefits. Such an approach, calling for sacrifice now in return for a revival in the economy, might be more effective than the approach proposed by the Chancellor of the Exchequer in capturing public imagination and support. The difficulty was that, in reality, neither the CBI nor the Trades Union Congress could guarantee that individual unions would accept negligible pay increases, and experience showed that those in work were not generally ready to make sacrifices for those out of work. The result would be that the enhanced investment would have to be financed either by higher taxation or by penalising those groups in receipt of benefits.

b. As it was, the approach proposed by the Chancellor of the Exchequer itself called for a choice between consumption now and more investment and services, but with the pay assumption pitched at a tough but realistic level. The Press notice should be re-drafted to bring out much more clearly this crucial link between the level of pay and the possibilities for increased capital investment and more jobs. It was essential to get this message across if the public, and the public sector unions in particular, were to accept the prospect of the real fall in the standard of living which was implied by the factors proposed.

c. There were some disadvantages in splitting the present general factor of 7 per cent into two separate factors. 4 per cent would be seen as low for pay, and its publication now could provoke all the public sector unions into uniting behind the local authority manual workers in looking for more. On the other hand, it was essential to avoid any notion that 7 per cent was the figure for pay; the reality was that for 1982-83, though not necessarily for later years, there was a wide disparity between the factors appropriate for pay and for prices. It should be made clear that the 4 per cent pay factor was for earnings and not settlements and that the cash limit, into which it would be incorporated, applied to payrolls.

d. It was important to settle as soon as possible the question of how far the 1982-83 cash provision for local authority current expenditure should allow for excesses over the 1981-82 provision. The announcement of a 4 per cent pay factor would be meaningless for local authorities until this question was resolved and would not meet the objective of influencing, early in the negotiations, the local authority manual settlement. On the other hand, care had to be taken to avoid any impression that excessive expenditure in one year would be automatically forgiven by compensating increases in the following year; the cash planning system assumed that in general the squeeze in one year would be carried forward to the next. The right course was not to take a general decision on this question but to look at each case individually, recognising that the circumstances and merits varied.

e. There was no economic logic in a system whereby staff in a service to which the Government attached high priority should have their pay treated significantly less favourably than staff working in services of lower priority where staff cuts were possible. This feature of the cash limit system was acceptable only on an interim basis, and reinforced the case for making some special provision for the NHS pay groups.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, for the purposes of putting public expenditure programmes for 1982-83 on to a cash basis, the factors for inflation between 1981-82 and 1982-83 should be 4 per cent for pay generally and 9 per cent for prices, and that this decision should be announced in a Press notice to be issued later in the day. The Chancellor of the Exchequer and the Secretary of State for Employment should revise the draft press notice annexed to C(81) 45: the emphasis on the nature of the decision, and on the margin for flexibility which it provided, should be retained, but much

more should be made of the crucial link between lower pay settlements and more investment and jobs; it should be made clear that the pay factor represented a view of what the Government thought could be afforded to finance labour costs in the public services. The revised wording should (like the existing wording) be consistent with the Government's assurances to the Civil Service unions that negotiations on the 1982 non-industrial settlement would be conducted without a pre-determined limit on the cost. The Cabinet would consider further the case for cash additions to local authority programmes sufficient to make good in 1982-83 the squeeze which had occurred in 1981-82 because pay and price increases in those programmes had exceeded the cash limit factors. In doing so, they would wish to take account of any differences in performance between the English local authorities and others; they would also wish to have information on the achievement of the local authorities in the past year in reducing their manpower. In the meantime it should be made clear, in reply to any questions, that decisions on such cash increases, either for the local authorities or for other programmes, would be considered on their merits and case by case. The Cabinet would consider, in the course of their discussions of public expenditure beginning on 20 October, any other particular proposals for cash increases in respect of pay and prices; in the meantime they noted that such cases would be put for certain National Health Service pay groups and for university teachers.

The Cabinet -

1. Agreed that, to allow for inflation between 1981-82 and 1982-83, public expenditure programmes should be revalued by factors of 4 per cent for pay generally, applied to settlement dates, and of 9 per cent for prices generally, applied year on year, and that the factors of 6 and 5 per cent for all costs in the two following years should remain unaltered.
2. Invited the Chancellor of the Exchequer, in consultation with the Chief Secretary, Treasury, the Chancellor of the Duchy of Lancaster and the Secretary of State for Employment, to revise the Press notice annexed to C(81) 45, taking account of the points made in their discussion, and to issue it later that day.
3. Invited the Secretary of State for the Environment, in consultation with the Secretaries of State for Northern Ireland, Scotland and Wales, and the Chief Secretary, Treasury, to circulate a memorandum, in time for discussion at their meeting on 24 September and taking account of the points made by the Prime Minister in her summing up, on the case for cash additions to local authority current expenditure in 1982-83 to compensate for pay and price increases in 1981-82 in excess of the cash limit set for that year.

4. Agreed to defer, until their discussions on the 1981 Public Expenditure Survey starting on 20 October, consideration of any further proposals for cash increases or reductions in programmes where there were strong grounds for allowing exceptionally for pay and price movements differing significantly from the general factors.

Cabinet Office

15 September 1981