

PRIME MINISTER

You have (in my earlier minute on the European Council) recognised the need for us to have (at least) a briefing line after Cabinet tomorrow.

You may feel it would be sensible to spend a few minutes at the end of the public expenditure discussion tomorrow on how to present the outcome.

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In the meantime, it may be useful to you to have the following note which is based on a meeting held by the Lord President this morning with Heads of Information.

There are essentially only two options:

- (i) to hold everything back until next week when the Chancellor can make a statement covering public expenditure, Industry Act forecast, Government Actuary report and, I hope, the RSG decision and put the whole outcome in its macroeconomic context;
- (ii) for the Chief Secretary to make as full a statement as possible tomorrow afternoon setting the overall outcome in its macro-economic context and selling the package of decisions as positively as possible;

I understand from the Lord President that, having consulted the Party Chairman and Chief Whip, the idea of a Chief Secretary statement tomorrow is ruled out because of Crosby. As you know, we took the view that a statement tomorrow would be inadvisable because of the by-election.

That being so, we are left with a substantive statement by the Chancellor next week which puts the overall outcome in the most positive light and kills as many birds - i.e. bad news - as possible with one stone. But that puts a premium on tight security after tomorrow's Cabinet and over the weekend until the

/Chancellor

Chancellor is in a position to make a full statement.

If we could guarantee security, it would suffice for me to say after Cabinet:

"The Cabinet has [to all intents and purposes] completed its public expenditure review and the Chancellor will make a full statement setting out the outcome next week/Wednesday."

Facing up to reality, you will wish to consider whether there is anything more that might usefully be said to try to retain the initiative which we could so easily and embarrassingly lose with a 5-6 day gap between decisions and announcement.

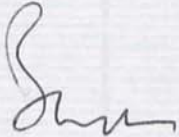
So far as presentation of the package is concerned, the most difficult decisions are:

- (i) Whether making a virtue out of the necessity to raise next year's public expenditure conflicts with the line you and the Treasury have been taking so strongly this autumn against the merits of reflation. We must avoid getting the worst of both worlds by facing criticism for cuts in particular programmes while being unable to claim credit for our flexibility over the total. I propose to take the line that the Government is, of course, still committed to tight control of public spending; that that does not rule out flexibility in the face of the recession; and that what we have achieved is a total level consistent with a continuing decline in the PSBR.
- (ii) The effect of the various announcements, and their implications for take-home pay and cost of living, on pay bargaining. John Vereker is preparing some guidance for

/Ministers



Ministers which the Lord President has agreed to circulate when the announcements are made. Inevitably this focusses on the fact that we have always said that those in work would sooner or later have to have a fall in living standards in order to get the economy competitive again.



B. INGHAM

25 November, 1981