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CC(85) 6th
Conclusions

COPY NO 74

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 14 FEBRUARY 1985
at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

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

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Earl of Gowrie
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Young of Graffham
Minister without Portfolio

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The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

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

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Items 4 and 5)

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr John Gummer MP
Paymaster General

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 4 and 5)
Mr D F Williamson (Items 2 and 3)
Mr B G Cartledge (Items 2 and 3)
Mr C J S Brearley (Item 1)
Mr A J Wiggins (Items 4 and 5)
Mr R Watson (Item 1)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

FOREIGN
AFFAIRS

India

Previous
Reference:
CC(85) 3rd
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that, in recent meetings with the Indian Prime Minister, Mr Rajiv Gandhi, and with the senior official in the Ministry of External Affairs, the British High Commissioner in New Delhi had been given renewed assurances that there was no embargo on visits to India by British Ministers or on commercial negotiations between the two countries. It was nevertheless clear that, particularly in the Ministry of External Affairs, resentment against the United Kingdom lingered on and that Indian feelings still ran high over the activities of Sikh extremists in the United Kingdom. Mr Gandhi's invitation to the Prime Minister to visit India briefly during her forthcoming tour of South East Asia was, however, encouraging. The United Kingdom had not, so far, been implicated in the spy scandal in New Delhi. Although issues affecting Anglo-Indian relations would still need to be carefully monitored in both countries, there had been a modest improvement in the situation.

Libya

Previous
Reference:
CC(85) 5th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that, following the release in Libya and return to the United Kingdom of the four British hostages, he had expressed the British Government's thanks to all those who had contributed to this outcome, including the Archbishop of Canterbury and his representative and the Governments of Italy, Morocco, Tanzania and Greece. In a Written Answer to a Parliamentary Question, on lines previously agreed, he had announced the British Government's agreement to one meeting between British and Libyan officials to hear Libyan complaints and to a limited issue of visas to Libyans on urgent compassionate grounds. Despite these minor steps forward, there could be no illusions that the difficulties with the Libyan regime were over and his answer had accordingly included a word of caution to the British community in Libya.

Nigeria

Previous
Reference:
CC(84) 27th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the trial of those accused of involvement in the kidnapping of the exiled former Nigerian Minister for Transport, Mr Umaru Dikko, had concluded on 12 February with the passing of prison sentences, which might be subject to appeal, ranging from 10 to 14 years. The reaction of the Federal Military Government of Nigeria had been one of dismay and disappointment, particularly over the length (12 years) of the prison term to which Mr Mohammed Yusufu had been sentenced. It was clear that Anglo-Nigerian

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relations faced a period of considerable difficulty and everything possible would be done to protect British interests in Nigeria. He was exploring with the Home Secretary ways in which the continuing irritant of Mr Dikko's presence in the United Kingdom might be removed.

Romania
and
Bulgaria

THE FOREIGN AND COMMONWEALTH SECRETARY said that during his visit to Romania on 8-10 February he had been subjected to a predictably eccentric exposition of President Ceausescu's views on foreign policy but had concluded that, in view of Romania's catastrophic economic situation, these were unlikely to carry weight within the Warsaw Pact. In Bulgaria, which he had visited from 10-11 February, he had by contrast found an orthodox pro-Soviet foreign policy stance accompanied by efficiency in economic management as well as in maintenance of the authoritarian regime. President Zhivkov had exhibited a relatively sophisticated approach to Bulgaria's internal and external economic policies, including recognition of the need to keep borrowing under control and to create a rudimentary venture capital market. Some British firms were already involved in joint ventures with Bulgarian partners and, by contrast with the problems which the British Aircraft Corporation were encountering in Romania, could expect to be paid. The unattractive face of the Bulgarian regime was, however, in evidence in its treatment of the Turkish minority, whose emigration from Bulgaria the Turkish Government was sensibly seeking to encourage.

Turkey

THE FOREIGN AND COMMONWEALTH SECRETARY said that during his visit to Turkey on 11-13 February he had encountered a significant degree of Turkish goodwill towards the United Kingdom, partly as a result of British efforts to argue the Turkish case against criticism on human rights issues in the European Assembly and the Council of Europe. He had nevertheless expressed firmly and directly the British Government's concern over human rights problems in Turkey despite British understanding of the background against which they arose. In discussions on Cyprus, it had been clear that the Turkish Government wished to see a settlement; but that, although they would hold the Turkish Cypriot leader, Mr Rauf Denktash, to the concessions he had already made in the recent high level talks with President Kyprianou of Cyprus, they would be unwilling to push Mr Denktash further or to prevent him from holding elections before a further round of talks took place. It would now be important to encourage President Kyprianou, who had played his hand badly in the recent talks, to adopt a positive approach towards a further high level meeting. Although in view of Turkey's economic difficulties, he had not pressed the interests of British exporters, his discussion of the economic situation with the Prime Minister, Mr Turgut Ozal, had produced some evidence of positive

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achievements, including a substantial expansion of output and exports, higher energy prices and lower subsidies; but there were also grounds for concern that Turkey might be over-trading and doing too little to reduce its balance of payments deficit.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Agricultural
Structures

Previous
Reference:
CC(85) 2nd
Conclusions,
Minute 3

3. THE CHANCELLOR OF THE EXCHEQUER said that the Council of Ministers (Finance) on 11 February had discussed the financing of the proposed agricultural structure measures but had not reached agreement on a financial ceiling or on the amount. This matter was important because this was the first time that the Finance Ministers had addressed a question of agricultural expenditure since the agreement on budget discipline. The Italian Presidency had not facilitated an agreement. The Finance Ministers had agreed, however, that they would try to reach a decision at the meeting of the Council on 11 March. This implied that they did not expect the Agriculture Ministers to finalise the agricultural structures package in the Council of Ministers (Agriculture) on 25-26 February. In discussion it was pointed out that there might be difficulties in the Council on 25-26 February. This would be clearer, however, following a meeting arranged between the Minister of Agriculture, Fisheries and Food and Signor Pandolfi, the Chairman of the Council of Ministers (Agriculture).

The Cabinet -

Took note.

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute

Previous
Reference:
CC(85) 5th
Conclusions,
Minute 3

4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(85) 4) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER introduced a discussion of the economic situation and prospects, as a background to the decisions which he would be taking for his Budget, to be presented on 19 March; every member of the Cabinet contributed.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet wholeheartedly reaffirmed their commitment to the central objectives of the Government's economic strategy: lower inflation, firm control of public spending and a continuing reduction in public sector borrowing.

The Cabinet -

Invited the Chancellor of the Exchequer to take account of the discussion in preparing his forthcoming Budget.

Cabinet Office

14 February 1985

SECRET

Air Robert Armstrong (Bound Volume)

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CABINET

LIMITED CIRCULATION ANNEX

CC(85) 6th Conclusions, Minute 4

Thursday 14 February 1985 at 10.30 am

THE SECRETARY OF STATE FOR ENERGY said that the return to work in the current week was less than the previous week's high levels, largely as a result of the severe weather. It was nevertheless expected that by the end of the week the number of miners at work would be at least 85,000, more than 45 per cent of the total. The number of pits working normally had increased by four to 54. Coal movements in the previous week had amounted to 930,000 tonnes but would probably be only about 800,000 tonnes in the current week owing to the weather. Power station coal stocks, which had fallen by only 230,000 tonnes in the previous week, amounted to some 12½ million tonnes. It was a welcome development that both the South Wales and Yorkshire areas of the National Union of Mineworkers (NUM) had ordered their members to comply with the court injunctions limiting the number of pickets at certain specified pits to no more than six. His discussions the previous evening with leaders of the National Association of Colliery Overmen, Deputies and Shotfirers had gone well. They were unlikely to initiate any industrial action in support of the NUM; their main concern was to press for a negotiated settlement. The General Secretary of the Trades Union Congress, Mr Willis, had been having private talks with the Chairman of the National Coal Board (NCB), Mr MacGregor, and would be meeting the National Executive of the NUM the following day. At present it seemed unlikely that a basis would be found for a successful resumption of negotiations. The NCB was mindful of the dangers of conceding an amnesty for NUM members found guilty of disciplinary or criminal offences. The figures recently leaked to the press about the costs of the coal strike for the Central Electricity Generating Board were inaccurate. The line should be that the estimates already published by the Government still stood and that accurate figures for the overall cost of the strike could not be available until the strike ended.

The Cabinet -

Took note.

Cabinet Office

15 February 1985

SECRET

SECRET

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute

Previous
Reference:
CC(85) 5th
Conclusions,
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CAB 128/82

SUBJECT

MOST CONFIDENTIAL RECORD

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MOST CONFIDENTIAL RECORD
TO
CC(85) 6th Conclusions

Thursday 14 February 1985

ECONOMIC
STRATEGY

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(85) 4) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER said that the development of the United Kingdom economy during the past year had been dominated by the miners' strike and the appreciation of the United States dollar against all other major currencies. More recently the weakness and uncertainty of oil prices had had a substantial impact. In most respects the United Kingdom economy had been fairly resilient; despite the miners' strike, the current account balance had remained in surplus, and the Gross Domestic Product (GDP) had increased by about 2½ per cent, as against the earlier forecast of 3 per cent. Inflation had been held to about 4¾ per cent despite the depreciation of sterling, as against the earlier forecast of 4½ per cent. Not all of the overshoot of the 1984-85 Public Sector Borrowing Requirement (PSBR) could be attributed to the miners' strike; this factor had however probably influenced sentiment in financial markets, and the resulting increase in interest rates had further exacerbated the PSBR problem.

For 1985 the prospect was for 3 per cent growth in GDP, with inflation remaining at about 5 per cent, although it might go somewhat higher during the first half of the year, particularly as a result of the impact of higher mortgage interest rates. There were considerable uncertainties, both external and domestic. The very large United States budget deficit and the high level of dollar interest rates, with the dollar remaining extremely strong against all other currencies, represented a threat to the world economy; the United States were in effect importing other countries' savings and exporting their own inflation, while the debtor countries were facing an increasing real burden of debt service. On the domestic front one main worry was that earnings were rising substantially faster than prices, with productivity stagnant; the result was rising United Kingdom unit labour costs, while those of other major countries were static or falling. This factor was preventing the economic recovery from giving rise to an increase in numbers of people employed. The other main worry was the continuing upward pressure on public expenditure. A larger overshoot of the 1984-85 planning total as in the recent Public Expenditure White Paper was now expected than could be attributed to the continuation of the miners' strike beyond the end of 1984. Higher interest rates would mean higher debt service payments, and local authority overspending now seemed likely to exceed earlier forecasts. These pressures were expected to continue in 1985-86 and thereafter. Because of these difficulties he thought it prudent to increase the size of the Contingency Reserve for 1985-86 and the two subsequent years, which would necessitate parallel increases in the planning totals. Great efforts would still be needed to keep public expenditure within these somewhat higher totals. The financial markets sensed these difficulties, and



this made it all the more important that the Government should stick to their economic strategy. Against this background there seemed likely to be much less room for a fiscal adjustment in the Budget than had been foreshadowed the previous autumn; whatever scope there was should be devoted to measures which would help the growth of employment.

In discussion, the following main points were made -

- a. There was general agreement on the need for caution in setting the 1985-86 PSBR: restraining borrowing to the level consistent with the Medium Term Financial Strategy (MTFS) was a minimum requirement. An adverse reaction from financial markets would add to the difficulty of managing economic policy. It would be important to avoid creating expectations that the Budget would have a substantial impact on unemployment.
- b. The outlook for public expenditure was extremely serious, and the fact that major difficulties would remain after the miners' strike was over would be extremely disappointing both to the financial markets and to the Government's supporters. The Government risked getting the worst of both worlds: unpopular expenditure cuts were being made over a wide range of services, while at the same time the Government were unable to keep total expenditure within the prescribed limits. The problem could be resolved only if changes were made in the structure of demand-led programmes, although even here the scope was limited by previous pledges to maintain the real value of certain benefits. It was nevertheless essential to find ways of reducing social security expenditure and expenditure by local authorities.
- c. There was a widespread feeling that this was not the year in which to embark on radical changes in the tax structure which would attract the hostility of powerful interest groups or increase the general price level.
- d. Much of the responsibility for the upward movement in unit labour costs was attributable to ineffective managements. Recent improvements in profits, and the greater profitability of exports resulting from the depreciation of sterling, seemed to have made companies more reluctant to resist excessive wage claims and risk interruptions in production. The effects then spilled over into the public sector, by creating pressure for "catching up" pay settlements. Although the climate of opinion was changing, there were still far too many examples of workforces pressing for pay increases very damaging to the international competitive position of the companies employing them.
- e. Rather than look for further tax concessions to business, the Government should now be seeking a greater contribution from business towards reducing unemployment and providing better training facilities for young people. Employers should recognise that the United Kingdom Government provided far more financial assistance to training than the Governments of the United States, Germany and Japan.



f. Despite the high level of unemployment, it remained difficult to fill vacancies for lower-paid workers. This in part reflected the fact that the differential for men with families between income from social security benefits and income from work was very small. If the problem were to be overcome, it would be necessary to consider reductions in entitlement to benefit as well as increases in tax thresholds for the lowest paid. However, not all the burden of restraining public expenditure could be placed on the poorest sections of the population; while for the lowest paid the proportion of income taken in tax had increased, the higher income groups had seen their tax burden reduced under the present Government.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised that the Chancellor of the Exchequer had little room for manoeuvre in his forthcoming Budget. There was general agreement on the need for a new effort to secure better control over public expenditure, and on the need to secure further reductions in the rate of inflation; 5 per cent a year inflation was still far too high. The objective of restoring the PSBR to the path set out in the MTFs was generally endorsed, and within this constraint the Cabinet agreed that the Chancellor of the Exchequer should concentrate on measures which would contribute to the growth of employment. The need to give full and clear explanations of the Government's policies, both to the Government's supporters in Parliament and to the wider public, was generally recognised. Inquirers from the media about the Cabinet's discussion would be told that the Cabinet had considered the economic situation and the approach to the Budget, and reaffirmed their commitment to the central objectives of the Government's economic strategy: lower inflation, firm control of public spending and a continuing reduction in public sector borrowing.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to take account of their discussion in preparing his forthcoming Budget.

Cabinet Office

18 February 1985