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CC(85) 24th  
Conclusions

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CABINET

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

THURSDAY 11 JULY 1985

at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

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 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

## THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

Mr John Gummer MP  
Paymaster General

## SECRETARIAT

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

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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 and that the House would adjourn for the summer on Friday 26 July and resume sitting on Monday 21 October.

House of  
Lords

THE LORD PRESIDENT OF THE COUNCIL said that the House of Lords would probably not adjourn for the summer until 30 July and would resume on 14 October. So far progress on the Transport Bill was better than had been expected.

Rate  
Support  
Grant  
Reports

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that debates on the motions on the English and Welsh Rate Support Grant (RSG) Supplementary Reports on Tuesday 16 July, rather than later in the week as had originally been planned, might produce complaints from the Joint Committee on Statutory Instruments (JCSI) as it would not have had an opportunity to consider the Reports until that day. In addition the RSG Supplementary Report (England) (No 3) 1982-83 had had to be withdrawn and relaid because of the need to make final adjustments. This too could occasion complaints although discussion of that particular Report could be delayed until the autumn without difficulty.

THE PRIME MINISTER, summing up a short discussion, said that it would be best to proceed with all the RSG debates on 16 July. Every effort should be made through the usual channels to head off complaints from the JCSI.

The Cabinet -

Invited the Secretary of State for the Environment and the Parliamentary Secretary, Treasury, to be guided accordingly.

FOREIGN  
AFFAIRS

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South Africa

Previous  
Reference:  
CC(85) 23rd  
Conclusions,  
Minute 4

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister had written on 4 July in strong terms to the President of the South African Republic, Mr P W Botha, warning that the United Kingdom would be likely to take specific steps in reaction to any further raid by South Africa like the one on Gaborone on 14 June. Mr Botha's reply of 5 July had been negative and unhelpful. The Prime Minister had sent him a further letter on 10 July reiterating the British position and emphasising that raids into neighbouring states were an inappropriate response to terrorism. The United States had made similar representations to South Africa. The effects on South Africa could not yet be foreseen. Meanwhile, world opinion continued to move towards the

adoption of economic sanctions against South Africa. The positions of Canada, Australia and New Zealand were changing. The United Kingdom would therefore have difficulty on this subject in the Commonwealth.

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government had announced on 8 July the ending of restrictions, deriving from the Falklands war, on Argentine exports to the United Kingdom. The Government had been under increasing pressure from British importers and had concluded that it would be difficult to defend in law the maintenance of the restrictions. The decision had been presented publicly as a helpful move designed to open the way to negotiations, which the United Kingdom had long sought, about the re-establishment of more normal relations with Argentina but not about the question of sovereignty over the Falkland Islands. The press reactions to the lifting of the restrictions had been favourable. The timing had been well chosen and the move had not been rumoured in advance, so that it achieved the maximum impact. The Argentine reaction had been characteristically curmudgeonly. According to first reports of it, Argentina had offered discussions within 60 days on a broad agenda which would include the question of sovereignty over the Falkland Islands. No reciprocal move by Argentina concerning trade had been mentioned. This Argentine reaction contained nothing new and the suggestion of talks including sovereignty of the Falklands was unacceptable. The news of the British lifting of the restrictions had been helpful during his visit to Brazil from 8 to 10 July.

Brazil  
Previous  
Reference:  
CC(85) 11th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY, reporting on his visit to Brazil from 8 to 10 July, said that it had brought home to him the enormous scale of the country and its economy. There were very great economic problems, although growth had now resumed. The problem of external debt remained very great: Brazil had to assign a large part of its export earnings to debt interest payments, and the magnitude of the debt was not diminishing. Brazil, had, however, achieved a small positive balance on its external account in 1984 and was likely to achieve the same in 1985. Brazil would probably reach a further agreement with the International Monetary Fund although it was always difficult for the country to meet the conditions set by the Fund. Brazil was worried that the President of Cuba, Dr Fidel Castro, was seeking to arouse opinion in Latin America against Western banks and creditors generally. This could have an explosive effect in the area. Paradoxically, despite Brazil's economic problems, there were opportunities for British investment and exports in Brazil, which the Foreign and Commonwealth Secretary proposed to discuss with other Ministers concerned.

Terrorism  
CONFIDENTIAL

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Federal Republic of Germany (FRG) was co-ordinating the views of the seven countries involved in the Economic Summits on the question of banning flights to and from Beirut International Airport. The matter would also be discussed in the following week by the political directors of the Foreign Ministries of the European Community countries. Judging from initial reactions, France seemed unlikely to participate in a ban on flights but the FRG would consider it. The need was for effective security arrangements at Beirut Airport, but our policy meanwhile was to secure the widest possible suspension of flights.

An intermediary claiming to act on behalf of the group holding Mr Alec Collett, the British citizen held in Lebanon, would shortly travel to Vienna for discussion with the United Nations Relief and Works Agency. It was not possible to foresee what would come out of this.

Convention on Long-Range Trans-Boundary Air Pollution

CONFIDENTIAL  
THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a conference had taken place in Helsinki, under the auspices of the Economic Commission for Europe, about the conclusion of a Protocol to the Convention on Long-Range Trans-Boundary Air Pollution, under which states would undertake to reduce sulphur dioxide emissions by 30 per cent by 1993. The United Kingdom had continued to decline to accept the target of a 30 per cent reduction by 1993. There now seemed to be more understanding of our reasons for this position, but our claim that we would achieve the target by the end of the century was seen as meaningless, because we would reach this result automatically without further anti-pollution measures. We continue to receive a bad press for our position on this matter; it was hard to persuade people that the Government cared about pollution. The Parliamentary Under Secretary of State, Department of the Environment (Mr Waldegrave) had represented the United Kingdom most effectively at the conference, despite the difficulties that he had faced.

European Defence Equipment Collaboration  
Previous Reference: CC(85) 21st Conclusions, Minute 2

CONFIDENTIAL  
THE SECRETARY OF STATE FOR DEFENCE said that the five-power negotiations about possible joint production of a European Fighter Aircraft were in a late and crucial stage. There was much last-minute manoeuvring among the participants. The British position had not been made easier by the outcome of the meeting of the European Council in Milan on 28-29 June. The situation was worrying, and it looked as though the FRG, which had seemed to tend towards the British position, might now be moving towards the French position.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Air Fares

3. THE SECRETARY OF STATE FOR TRANSPORT said that there had been a significant change in the previously rigid French opposition to some liberalisation of air fares. France had become worried about the success of the United Kingdom's bilateral agreements with the Netherlands and the Federal Republic of Germany. It was too soon, to say whether this would lead to an agreement with France. If such an agreement did prove possible, it could also have a favourable effect more widely.

Finance

THE CHANCELLOR OF THE EXCHEQUER said that at the Council of Ministers (Finance) on 8 July a satisfactory agreement had been reached on the reference framework for the Community's 1986 draft budget. This was an element in the new arrangements on budgetary discipline, and the result was consistent with the earlier agreement of the European Council. Two issues remained to be dealt with in the budgetary procedure - the handling of some financial commitments from the past and the size of the provision resulting from Spanish and Portuguese accession. The European Parliament would now be given an opportunity to comment on the reference framework. It would probably be adopted formally in the Council of Ministers (Foreign Affairs) on 22-23 July.

Agriculture

Previous Reference: CC(85) 21st Conclusions, Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Commissioner responsible for agriculture, Mr Andriessen, had been putting the emphasis, in the preparation of the Commission's paper on the future direction of the Common Agricultural Policy (CAP), on improving market balance by price discipline. The President of the Commission, Monsieur Delors, however, appeared to be reluctant to put his weight behind an approach which could be badly received by Community, and particularly French, farmers.

In discussion attention was drawn to reports that potatoes were being removed from the market or destroyed. This was not popular with consumers. It was pointed out that potatoes were not covered by CAP and the present action was part of the United Kingdom's own market stabilisation arrangements through the Potato Marketing Board. These arrangements were intended to provide a balance between the consumer's interest and some support to United Kingdom potato producers within the open trading system. The Minister of Agriculture, Fisheries and Food would provide briefing material for the Prime Minister in case she was questioned in the House of Commons about the present action.

The Cabinet -

Took note.

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(85) 17) on economic prospects and a memorandum by the Chief Secretary, Treasury (C(85) 18) on the 1985 Public Expenditure Survey.

THE CHANCELLOR OF THE EXCHEQUER said that the short-term prospect for the economy was broadly similar to that foreseen at Budget time. Although inflation had risen further than expected, and the next two months' figures would remain high, the Retail Price Index should decline to some  $5\frac{3}{4}$  per cent in the last quarter of 1985, and to below 5 per cent by this time next year. The prospect for output growth was better than foreseen at Budget time. He expected a full  $3\frac{1}{2}$  per cent increase this year, and some  $2\frac{1}{2}$  per cent in 1986. The latter was better than it seemed, since a decline in North Sea oil production could reduce Gross Domestic Product (GDP) by  $\frac{1}{2}$  per cent. Although he did not expect any substantial fall in unemployment, the June figures had been encouraging, especially since the effect of his Budget measures had still to come through. The Public Sector Borrowing Requirement was also on course for the £7 billion set for 1985-86 in the Budget.

There were still, however, major uncertainties. Internationally, these related mainly to oil prices and the course of the United States economy. Although domestic demand in the United States was still holding up, the satisfaction of this by increased imports would add to existing protectionist pressures. He was also concerned that the United States Administration were not making progress on reducing the Federal budget deficit. At home, the level of pay settlements was too high and there were great pressures for increased public expenditure. Although the ending of the commitment to 3 per cent real growth in the defence budget and the easing off of the rise in unemployment might ease the position in some respects, it was most important to resist these pressures and to maintain firm discipline over public expenditure. Without this it would not be possible to reduce the tax burden and enable the private sector to generate the economic growth that alone could pay for the provision of public services. It was therefore essential to keep public expenditure broadly level in real terms as proposed in the Chief Secretary, Treasury's paper.

THE CHIEF SECRETARY, TREASURY said that for 1986-87 and 1987-88 he was proposing that the aim of the survey round should be to maintain the figures in the 1985 Public Expenditure White Paper (Cmnd 9428) plus the changes announced in the Budget together with a few minor adjustments. This would give planning totals of £139.1 billion and £143.9 billion in those two years respectively. For 1988-89 he proposed a figure of £148.2 billion, which represented a 3 per cent uplift on the 1987-88 figure. This would give planning totals broadly level in real terms over the survey period. His colleagues had put forward substantial additional bids in all three years, rising from some £6 billion in 1986-87 to over £8 billion in 1988-89. These bids included demand-led bids, such as those on the social security programme, and the proposals for additional provision for local authority current expenditure which had already been agreed. Against these bids he was ready to allocate £1 billion of the Reserves in 1986-87 and 1987-88. This would leave Reserves of £5 billion, £6 billion and £7 billion in the three survey

years, which was the minimum he considered the Government could prudently publish in the plans for the new forward years. He was also ready to set against the proposed increases the higher estimate of receipts from privatisation which he now put at £4½ billion, £3½ billion and £3½ billion over the three years of the survey. But he warned that, although receipts from privatisation and asset sales would count towards achieving the public expenditure control total, their effect was essentially a financing one and did not warrant permanent reductions in taxation or increases in expenditure.

On running costs, he proposed that reductions should be sought for 1986-87 which could be carried forward to the two following years. The overall increase of 6.3 per cent in 1986-87 proposed was unacceptably high and it was necessary to reach agreement on tough but realistic targets for each Department. In doing this he wished to give greater priority to efficiency in achieving output performance. On manpower, he recognised the need to give higher priority within overall totals for running costs to the staffing of services aimed at controlling fraud or whose costs were wholly recovered by fees. The overall targets he had proposed were tough, he believed they were realistic and he sought the co-operation of his colleagues in achieving them.

In discussion, there was general agreement with the approach to economic policy and public expenditure outlined by the Chancellor of the Exchequer and the Chief Secretary, Treasury. It was particularly important, given the other uncertainties, for the Government to make it clear that they stood firmly by their stated public expenditure policy.

The following points were also made -

- a. There was some concern about the ability of manufacturing industry, which currently had a large trade deficit, to fill the gap as oil production declined over the next decade. On the other hand, general prospects for manufacturing industry seemed good. In 1984 real growth had been 3½ per cent, the highest since 1973, and investment had increased by 14 per cent in real terms. Exports were currently 14 per cent higher in real terms than a year ago, and many of the imports financed by net oil exports represented capital goods to re-equip manufacturing industry. Improvement in the manufacturing sector would in any case depend primarily on decisions by companies themselves and would not be helped by higher public expenditure or interest rates.
- b. The level of unemployment remained a matter of serious concern, and the continuing rise in the working population would make any substantial reduction difficult to achieve. The trend, however, although still rising, was slower than in the recent past, and the measures already taken by the Government gave a prospect of reversing that trend if economic growth was maintained.



c. The high level of real interest rates also remained a cause for concern, together with the effects on competitiveness of a high exchange rate. Continuing economic uncertainties, including the oil price, would make it wrong to take any risks on a premature reduction in the level of interest rates which despite its effect on mortgage rates, was helpful to the priority of getting inflation down. On the other hand interest rates would not be held at present levels longer than was necessary: there were currently some signs that interest rates were weakening slightly.

d. There was general support for the approach of the Audit Commission in securing greater efficiency and cost effectiveness. This was particularly relevant to the question of reducing current costs so that resources could be made available for capital expenditure and expenditure on essential maintenance of existing assets particularly in the politically sensitive social fields such as education, health and housing.

e. The Government should pay more attention to the presentation as well as the substance of public expenditure policy. There was a risk of getting the worst of both worlds; criticism for cuts the Government had not made, and no credit for spending on priority areas. There would be advantage in giving a clear message that the Government had public expenditure under firm and well managed control with the right priorities within the resources available. It was important also not to encourage damaging publicity by leaks about the public expenditure discussions.

f. In some cases economies in small programmes could attract public criticism disproportionate to the amounts saved. On the other hand, substantial amounts of some of the large programmes, such as social security, were already pledged. All Ministers would need to contribute constructively to the search for further reductions.

g. The United Kingdom was unique among its major partners in the lack of opportunity available to private individuals to contribute from their own income to services such as health and education. Controlling public expenditure so that it declined as a proportion of GDP would help to increase the scope for this, as well as making it possible to reduce tax thresholds.

h. The Chief Secretary, Treasury's proposals regarding manpower were generally welcomed. There was a case, within the Government's overall objectives for reducing the public sector, for some relaxation of policy on manpower where the benefits of additional employment could be shown to exceed the costs involved.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet fully and unanimously endorsed the proposals for the public expenditure planning totals in the three years 1986-87 to 1988-89, and for the treatment of the Reserves, running costs, manpower and surplus land and empty housing, in the Chief Secretary, Treasury's paper C(85) 18.

The Chief Secretary, Treasury should pursue bilateral discussions with the Ministers responsible and then report further to the Cabinet which would review the overall position before any outstanding questions were dealt with. Ministers responsible for expenditure programmes should co-operate constructively in achieving the agreed public expenditure planning totals and objectives, bearing in mind the need to maintain an appropriate political balance. In reply to questions, she would explain that the Cabinet had discussed public expenditure and agreed to maintain the planning totals for 1986-87 and 1987-88 at the levels in the 1985 Financial Statement and Budget Report and to maintain the total broadly unchanged in real terms in 1988-89. She suggested to her colleagues that they should stick to this line if they found themselves unable to avoid having to comment to the media.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(85) 18.
3. Invited the Chief Secretary, Treasury to report again on the 1985 Public Expenditure Survey when he had completed discussion with the Ministers responsible on individual expenditure programmes and manpower allocations.

REVIEW OF  
STUDENT  
SUPPORT

5. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C(85) 16) about the review of student support, to which was attached a draft consultative paper.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he was committed to publishing a consultative document on student support by the end of July. The draft paper attached to his memorandum touched on some of the other possibilities for reform of the present student support system, but concentrated primarily on the possibility of introducing a loan scheme. Under his proposals tuition fees would continue to be paid in full by the State but the maintenance grant would be replaced by loans. He had concluded that a loan scheme was preferable to grants, because it could be advantageous if students did not embark on adult life totally financed by the taxpayer, and it was right that students who benefited from higher education should make some return. Many other developed countries had a student support system which involved loans at least in part. The paper was deliberately non-prescriptive on loans, but he had felt it right that one loan option should be described in some detail in order to focus public debate. The option illustrated reflected very favourable terms, to which the Chancellor of the Exchequer had agreed, in order not to discourage students from low-income families from applying for loans. The loan would be repaid over a period of 15 years, beginning two years after the completion of the course and with grace years in those periods when the income of the graduate fell below 85 per cent of the national average earnings. No interest would be charged on the loan, but the debt would be revalued on an annual basis in line with inflation, subject to a ceiling of 5 per cent. In an attempt to make the scheme even more attractive, he proposed that the current parental contribution should be reduced by one third over a period of 10 years. Despite this, there would still be a considerable long-term saving of public expenditure. The cost estimates were necessarily speculative and would depend in part on the degree of default on repayments. He had no reason to believe that this would exceed the 10 per cent level experienced in other countries and defaults would not always have to be pursued in the courts. The proposals in the Green Paper would serve the dual objectives of making the student support system more equitable, while reducing public expenditure in the long term. He sought Cabinet's approval to publish the draft as a Green Paper on 22 July.

The following main points were made in discussion

- a. A system of loans for students would result in young people beginning their careers burdened with debt at just the time when they might well be taking on other, family and housing, commitments. The loan repayments would be a very significant percentage of the disposable income of young graduates, even taking into account the favourable terms which were suggested.
- b. Children from working class families would be particularly discouraged from entering higher education on this basis. It would also tend to discriminate in practice against the entry of young women into higher education.

c. Although Members of Parliament, when discussing earlier proposals to alter the basis of parental contributions to the existing grants, had indicated some support for a loan system, it seemed likely that they would cease to be so enthusiastic when faced with the detail of a particular proposal and with the inevitable complaints from those who would lose from the change.

d. Although the drafting of the Green Paper could be improved to make the loan scheme look less like a firm proposal, as well as to emphasise the fact that tuition costs would continue to be paid by the State, it would inevitably be regarded as a Government proposal. As such it would be heavily criticised, especially at the present time when there was so much ferment in the educational world, and by all those who thought that they would lose from the change.

e. It was not easy to see how other sources of complaint, such as the parental contribution, could be dealt with, or valuable public expenditure savings be secured in this area, unless the proposal for loans was taken forward. It would also enhance student's sense of responsibility and commitment.

THE PRIME MINISTER, summing up the discussion said that, although the Cabinet recognised the benefits in principle of bringing home to young people the fact that the advantages which they would gain from higher education should be paid for, they were also impressed by the difficulties a loan scheme might create for young people. In the circumstances the proposals for student loans in the Green Paper attached to C(85) 16 should be neither published nor pursued. Other avenues might, however, usefully be explored, such as increasing the finance for student support and universities generally from successful graduates and from industry. In addition, more efforts should be made to reduce the number of more erratic and less useful courses of study at universities so that more students could contemplate taking places at universities close to their home. The withdrawal of housing benefit and social security from students would go a considerable way towards reducing public expenditure in this area, and might encourage more students to look for employment during the vacations. She would discuss with the Secretary of State for Education and Science how he might best respond to enquiries about the commitments he had given.

The Cabinet -

1. Agreed that no further action should be taken on the consultative document on student loans.
2. Invited the Secretary of State for Education and Science to consider other ways in which the arrangements for student support might be improved, including those indicated in the summing up.

Cabinet Office

11 July 1985