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C(86) 6th
conclusions

CABINET

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

THURSDAY 13 FEBRUARY 1986

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 Lord Hailsham of St Marylebone
Lord Chancellor

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 Douglas Hurd 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 Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger 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 Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

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 Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John MacGregor MP
Deputy Secretary, Treasury

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

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ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

SECRETARIAT

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

C O N T E N T S

| Item | Subject | Page |
|------|-------------------------------|------|
| 1. | PARLIAMENTARY AFFAIRS | 1 |
| | British Leyland | 1 |
| 2. | FOREIGN AFFAIRS | |
| | Libya | 1 |
| | The Philippines | 1 |
| | Iran/Iraq War | 2 |
| | South Africa | 2 |
| | Nigeria | 3 |
| | Uganda | 3 |
| 3. | COMMUNITY AFFAIRS | |
| | Intergovernmental Conference | 3 |
| | Agriculture | 4 |
| 4. | ECONOMIC STRATEGY | 4 |
| 5. | DISPOSAL OF RADIOACTIVE WASTE | 4 |

PARLIAMENTARY
AFFAIRS

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

British
Leyland

Previous
Reference:
CC(86) 5th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that discussions with General Motors (GM) about the sale of the truck and Land Rover divisions of British Leyland (BL) were proceeding. Heads of agreement might be expected by the end of that month. The publicity surrounding GM's offer had aroused the interest of other companies, including some other European motor manufacturers. They were not all interested in both divisions, and only one firm was interested in the truck division alone. There was also a possibility of a management buy out at Land Rover. He did not think that these offers could be ignored, even though they were late in the day. He had therefore asked the BL Board to give those now interested sufficient financial data to enable them to make firm offers, if they wished to do so. It would be important not to put the chances of an agreement with GM at risk, and other contenders should be allowed only two weeks or so to make up their minds.

THE PRIME MINISTER said that the Cabinet agreed with the tactics proposed by the Secretary of State for Trade and Industry.

The Cabinet -

Invited the Secretary of State for Trade and industry to proceed as he proposed.

FOREIGN
AFFAIRS

Libya

Previous
Reference:
CC(86) 5th
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the armed forces of the United States had not, in recent military exercises in the Mediterranean area, entered the Gulf of Sirte, to which there was a disputed Libyan claim. The United States had, however, now given formal notice that an exercise lasting from 11 to 15 February would take place partly in the Tripoli Flight Information Region, which included the Gulf of Sirte. There was thus a tense situation, with possible potential for conflict. The prospects were still being analysed, but the provisional view was that the President of Libya, Colonel Qadhafi, was unlikely to risk conflict with the United States.

The
Philippines

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had clearly been widespread intimidation of voters during the Presidential election in the Philippines on 7 February. The counting of votes - if one could speak of "counting" in the present context - was continuing. It seemed almost certain that the incumbent President, Mr Ferdinand Marcos, would be officially declared the winner. It seemed equally certain that the opposition candidate, Mrs Corazon Aquino, would have won the election,

if it had been genuinely free. Mrs Aquino's supporters were planning demonstrations. There was risk of violence from the extreme left of the political spectrum. The situation was calm at present but could deteriorate. Unrest could create circumstances in which the armed forces might seek to take over the Government. The United Kingdom had no active role to play in relation to the situation in the Philippines. But the United States faced a difficult problem. President Reagan seemed to have been influenced by the evidence of intimidation during the election towards a position which was more critical of President Marcos. The United States would clearly keep a close watch on the situation but it was hard to see what positive action the Administration could take.

Iran/Iraq War
Previous
Reference:
CC(85) 13th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been a minor Iranian offensive against Iraq across the Shatt-el-Arab waterway. Iraq had now regained all the territory to the west of the waterway except an area around the town of Faoi, which it was still trying to win back. The Iranian offensive had not done serious military damage to Iraq or increased the Iranian threat to Kuwait. It was not clear whether the offensive would be followed up by further Iranian attacks. Iraq had called for a meeting of the United Nations Security Council in the week beginning 17 February.

South Africa
Previous
Reference:
CC(86) 5th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been discouraging developments in South Africa in the past week. The President, Mr P W Botha, had rebuked his Foreign Minister, Mr Pik Botha, for speaking of the possibility that South Africa might one day have a black President. The South African Government's commitment to equal educational opportunities for all races had been qualified. Chief Buthelezi, a black leader, had declined to join the proposed Statutory Council. The United Kingdom had encouraged President Botha to create a momentum of reform. The Commonwealth Group of Eminent Persons was preparing for a first visit by some of its members to South Africa, perhaps in the following week. It appeared that both the South African Government and black South African leaders wanted the visit to go ahead. The important question of the release from prison of Mr Nelson Mandela, the former African National Congress leader, had been discussed in meetings between Mr Pik Botha and the United States Assistant Secretary of State, Dr Chester Crocker. South Africa was apparently linking this question to that of the release of an officer of the South African armed forces held in prison in Angola. It was not clear whether Mr Mandela was insisting on staying in South Africa, if he were released. It was possible that South Africa would like to release him from prison if a satisfactory formula could be found. Meanwhile, Mr Pik Botha and Dr Crocker were also discussing the question of South African

withdrawal from Namibia in the context of withdrawal of Cuban forces from Angola; despite optimistic reports in the media, it was not clear whether progress had been made.

Nigeria
Previous
Reference:
C(86) 5th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the appointment of the new British High Commissioner to Nigeria, Mr Martin Ewans, had been announced on 11 February. Nigeria had nominated the present Permanent Secretary at the Foreign Ministry in Lagos, an experienced diplomat, as its candidate as High Commissioner in London. These moves indicated further improvement in Anglo-Nigerian relations.

Uganda
Previous
Reference:
C(86) 5th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Minister of State, Foreign and Commonwealth Office (Mrs Chalker) had visited Kampala on 12 February. Her talks with the President of Uganda, Yoweri Museveni, had established a reasonable basis for the cautious development of the United Kingdom's relationship with the new Government. Mrs Chalker had indicated the United Kingdom's readiness to provide some economic aid as well as advice on the training of the Ugandan armed forces. There were still risks that the situation in Uganda could again deteriorate: the northern part of the country had neither been pacified by President Museveni's forces nor integrated into the country under the rule of the new Government.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Intergovern-
mental
conference
Previous
Reference:
C(86) 5th
Conclusions,
Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the text incorporating the results of the Intergovernmental Conference would be signed by 10 or 11 member states, including the United Kingdom, the following week. These member states hoped that this would encourage a favourable result in the Danish referendum. The opinion polls in Denmark were pointing in the right direction. The results of the Intergovernmental Conference, however, could not enter into legal effect until ratified by the Parliaments of all 12 member states.

Agriculture
Previous
Reference:
CC(86) 3rd
Conclusions
Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that the Commission had now presented its proposals for agricultural prices and related measures for 1986-87. Basically the proposals were price-neutral but within the package there were some measures on grain, beef and sheepmeat which discriminated against the United Kingdom's interest.

The Cabinet -

Took note.

ECONOMIC
STRATEGY

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(86) 5) 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 18 March.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet fully endorsed the maintenance of the sound and prudent policies which had sustained the British economy well in an environment of great uncertainty.

The Cabinet-

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

DISPOSAL OF
RADIOACTIVE
WASTE

5. The Cabinet considered a memorandum by the Lord President of the Council (C(86) 6) about the discussions in the Home and Social Affairs Committee on the disposal of radioactive waste. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

13 February 1986

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CABINET

LIMITED CIRCULATION ANNEX

CC(86) 6th Conclusions, Minute 5

Thursday 13 February 1986 at 10.00 am

DISPOSAL OF
RADIOACTIVE
WASTE

The Cabinet considered a memorandum by the Lord President of the Council (C(86) 6) about the discussions in the Home and Social Affairs Committee (H) on the disposal of radioactive waste.

THE LORD PRESIDENT OF THE COUNCIL said that an effective nuclear policy depended on a credible policy for radioactive waste management. Following exhaustive discussions of the matter the former Secretary of State for the Environment had made an announcement in January 1985 that set out the Government's proposals for the disposal of low level and intermediate level waste. Those proposals involved the Nuclear Industry Radioactive Waste Executive (NIREX) in submitting at least three alternative sites for the disposal of low level waste which was the only type of waste currently at issue. The proposal was that these sites should be subject to geological exploration under a Special Development Order made under negative resolution procedure. In the light of the explorations, the number of sites that would then be put forward to a full planning inquiry might be reduced. NIREX had now formally submitted Elstow (Bedfordshire), Fulbeck (Lincolnshire), Bradwell (Essex) and South Killingholme (Lincolnshire) as the sites to be explored. The final two sites on this list were coastal ones and there was a variety of reasons for this, including the need of the Ministry of Defence to have a coastal site for the disposal of reactor chambers from decommissioned nuclear submarines. It was crucially important for the Government not to be shaken off its nuclear power programme, and anything that could be reasonably construed as weakness in the face of anti-nuclear sentiments could have very damaging consequences. On the other hand, the four sites in question were not in remote areas and proceeding with their exploration for radioactive waste disposal could create a political ferment. As it happened all the sites were in constituencies held by Government supporters: proceeding with the exploration of the sites might well cause the policies of the Labour Party and the Alliance parties to consolidate yet more strongly against the nuclear programme; Government support might well prove unreliable in the House of Commons; and there would be a distinct possibility of an unmanageable political situation both within and outside Parliament. This was an issue of major national importance that H had not felt able to resolve. The, very difficult, choice identified by H appeared to be between proceeding with a Special Development Order for the four

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submitted sites and avoiding the damaging controversy he had described by establishing yet another strategic review of radioactive waste disposal.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he fully agreed that whatever was done should not prejudice the Government's nuclear programmes. The proposal to proceed with several site investigations, in line with his predecessor's statement, would on the face of it deliver the most cost-effective solution. He doubted, however, whether the Government would command support for the necessary Special Development Order. Since it would not be feasible to compress the geological explorations into a shorter time scale than the 12-18 months proposed by NIREX, he concluded that the possibility of exploring these sites at the present time should be dismissed. The alternative of establishing an authoritative new review of waste management was also profoundly unattractive. It would suggest that the Government had no confidence in the policies professed by Governments since 1976; it would be seen as a retreat in the face of the anti-nuclear lobby; and it would risk provoking resignations from the Government's advisory bodies. He therefore proposed that his colleagues should consider a new suggestion, not so far put to H, that NIREX should be instructed to undertake an urgent feasibility study of the possibility of constructing disposal facilities in under-sea galleries such as were about to be brought into use by Sweden. Such galleries would be much more expensive than the relatively simple facilities for low level waste envisaged in current policy (the Swedish galleries, which were about to open, took three years to excavate and cost about £100 million) but a main purpose of a feasibility study would be to explore their cost in more detail. He believed that NIREX would accept a decision on these lines, since disposal in under-sea galleries was not contrary to consensus scientific opinion and it should be possible to argue that this latest technological advance needed to be assessed before final decisions were taken. A feasibility study might take anything up to two years. However the matter was resolved, the pressure for an early statement was now very great.

In discussion the following points were made-

- a. Past and future investment in the nuclear programmes was on a very large scale, and could not be jeopardised. Immediately, a prime concern must be to ensure a satisfactory outcome for the Sizewell Inquiry, on which present plans for a developed nuclear power programme depended. The report of the Inquiry was due in about two months. Detailed evidence had been submitted on the Government's waste management policy; if this was undermined there was real risk that the Inquiry might be reopened. Similarly, any question mark over the maintenance of an effective waste disposal policy would jeopardise a successful outcome to the inquiry, due to start that April, on the proposed facility at Dounreay.
- b. Any way forward should take account of the Ministry of Defence requirement. At present one nuclear submarine had been

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decommissioned: by 1992 there would be two more. Facilities would be needed either for docking them or for disposing of their reactor chambers.

c. It was important that no indication should be given that the sites put forward by NIREX were immune from further consideration. The results, including the financial aspect, of any feasibility study were by definition uncertain and no options should be discarded.

d. There were obvious attractions in limiting the concern about nuclear matters to the smallest number of localities. But there was a distinction to be drawn between looking to existing nuclear sites to provide disposal facilities if they were suitable for geological and other similar reasons, and moving to a policy of storing nuclear waste on the sites where it was generated. The on-site storage of waste would represent a major shift of policy that would provoke great controversy in the scientific communities. It would be very damaging for the idea to gain currency that the Government was contemplating such new policies at a time when the Sizewell report was awaited.

e. Any new waste disposal initiative must, at all cost, be part of a credible policy. That implied that a feasibility study for under-sea galleries should be presented not as a departure from the policy announced in January 1985 but, rather, as a positive development of that policy.

THE PRIME MINISTER, summing up the discussion, said that Cabinet was in no doubt about the need to safeguard the nuclear programmes, but that proceeding at the present time with the exploration of the four sites proposed by NIREX would provoke a degree of political turbulence that was not acceptable. In these circumstances, the alternative of a feasibility study of the use of under-sea galleries had a great deal to offer. Since the idea had not been scrutinised by all the colleagues who had a close interest, and the cost implications in particular needed further study, a final decision could not be taken at the present meeting. The Secretary of State for the Environment should urgently consult with the Secretaries of State for Foreign and Commonwealth Affairs, Energy, Defence, Scotland and Wales, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, to see if it was possible to prepare an announcement of the feasibility study that would reflect the points made in discussion. In particular, it would be important that any such study should be seen as a development within existing policy, rather than as representing a new policy that would displace the assumptions on which current nuclear proposals were based. The Secretary of State for the Environment should bring forward his proposals for urgent clearance in H. If so approved, a statement could be made in the following week.

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The Cabinet -

Invited the Secretary of State for the Environment to consult with the other Ministers concerned and to bring forward his proposals to the Home and Social Affairs Committee, as indicated in the Prime Minister's summing up.

Cabinet Office

14 February 1986

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Index.....

SUBJECT

MOST CONFIDENTIAL RECORD

| No. | Contents | Date |
|-----|---|------|
| | <p>CC(86) 6th Conclusions Thursday 13 February 1986 ECONOMIC STRATEGY</p> <p>CAB 128/84</p> | |

MOST CONFIDENTIAL RECORD
TO
CC(86) 6th Conclusions

Thursday 13 February 1986

ECONOMIC
STRATEGY

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(86) 5) on Economic Strategy.

THE CHANCELLOR OF THE EXCHEQUER said that the sharp fall in the price of oil had radically changed the budgetary prospect he now faced. Lower oil prices would mean lower inflation in most parts of the world, faster growth and more demand for manufactured goods. The British economy would share in these benefits, but at the same time Government revenue would fall substantially. Overall lower oil prices could be said to be good for the economy but bad for the Budget. With the exception of the continuing problem of very high unemployment, the recent performance of the British economy had generally been good; and 3½ per cent growth achieved the previous year in the Gross Domestic Product (GDP) had been in line with previous forecasts, and although inflation had been a little higher than forecast, exports had risen strongly and the current account surplus had been larger than expected. The outlook for 1986 was for 3 per cent growth in GDP; if achieved, this would be the fifth successive year of growth averaging 3 per cent. Inflation was expected to be down to 4 per cent by the fourth quarter of 1986, the strong rise in exports was likely to continue, and there would again be a substantial current account surplus. Business investment was continuing to increase, and the company sector was making healthy profits. Manufacturing productivity was continuing to increase rather faster than in most other industrial countries, but the faster growth of earnings and unit labour costs remained a most serious problem. The fiscal prospect for 1986 was inevitably clouded by the uncertainty about oil prices; if the 40 per cent reduction below the previous autumn's levels were to be maintained, the Government's oil revenue would be reduced by about £5 billion. The buoyancy of the rest of the economy meant that non-oil revenues would continue on a satisfactory trend, partially offsetting the losses on oil account. It was remarkable that it should be possible, despite the loss of oil revenue, to avoid any increase in taxes; but there was no escaping the conclusion that the scope for tax reductions had been deferred. The British economy remained exposed to substantial risks; oil prices could fall further, and market pressures might cause adverse movements in the exchange rate and in interest rates. The Organisation of Petroleum Exporting Countries were seeking to put maximum pressure on the British Government by holding their next meeting exactly at the time of the Budget. Privatisation receipts in 1986-87 were now put at £4¾ billion, over £2 billion higher than the previous year's estimate; given that such receipts effectively financed rather than reduced Government demands on the rest of the economy, some would argue that the underlying Public Sector Borrowing Requirement (PSBR), on the basis of the 1985 projection in the Medium Term Financial Strategy (MTFS), should be regarded as more than £12 billion, rather than £7½ billion. The position in the financial markets had been held

by the prompt 1 per cent increase in interest rates that January, followed by determined resistance to any further upward movements, and with any strain taken on the exchange rate. The markets appeared now to have suspended judgment until the Budget. His judgment was that, particularly in view of the additional privatisation receipts as well as this substantial downside risk, it would be prudent to aim at a PSBR a little below the previous year's MTF5 figure of £7½ billion if the confidence of the markets was to be retained. In all the circumstances the fact that it was possible to contemplate a Budget without an increase in taxes was impressive evidence of the strength of the economy; great concern had been expressed about the impact on the economy of the coming rundown in oil production over a long period, but in value terms half of the impact of that had already been felt. This could reduce substantially any remaining problems of adjustment.

In discussion, the following main points were made -

a. Great importance was attached to the problem of continuing high unemployment. Any available resources should be devoted to measures to counter unemployment. There would be great advantage if the number unemployed could be reduced below 3 million, and at least unemployment should not go above its present level. The fact that the expansion of the Community Programme and the two-year Youth Training Scheme announced in the 1985 Budget were only now coming into effect gave some grounds for optimism, and should be recalled in the presentation of the Budget. One approach would be to look to a further expansion of the Community Programme, together with some kind of extension of Enterprise Allowances; but it was arguable that it would be better to devote available resources to the creation of new capital assets rather than to 'making work'. The difficulty was that experience showed that it would cost a very great deal of money to have any substantial impact on unemployment; the view of the House of Commons Employment Committee that the main problem of unemployment could be overcome at an annual cost of about £3½ billion reflected that Committee's failure to realise that the people employed under the arrangements they recommended would in many cases displace existing employees.

b. Much concern was expressed about trends in earnings and in unit labour costs. Despite the correct advice offered year after year by the Government and by the Confederation of British Industry private sector employers persistently refused, when they were making reasonable profits, to hold out against demands for inflationary wage increases. This produced a situation in which competitiveness could only be maintained by progressive depreciation of sterling, which in turn created market pressure for interest rates higher than they would otherwise need to be. High interest rates were a major source of difficulty both for small businesses and for the increasing number of people buying their houses on mortgages.

d. The problem of incentives, and the unemployment trap, remained serious; although specific initiatives could help to reduce the

numbers of people on the register, and to make the labour market work better, the underlying difficulty that many people could expect practically the same household income out of work as in work remained a serious obstacle to progress in reducing unemployment. The removal of the wage-stop, although helpful from the standpoint of reducing the extent of family poverty, had made the problem of incentives worse. So far as the Budget was concerned, it was arguable that reductions in income tax rates, which would improve incentives throughout the economy and strengthen political support for public expenditure restraint, would be preferable to real increases in tax thresholds as a means of using any available 'fiscal adjustment'.

d. It was doubtful whether it would be prudent to seek to create room for direct tax reductions by real increases in indirect taxes, as had been done in 1979. There could be a case for some real increase in the duty on road fuel, which would counter-balance the impact on pump prices of the fall in world oil prices; but the overall prospect for inflation relied on reductions in oil product prices to counter-balance the impact on the general price level of the reduction in the value in sterling.

e. Although the overall net effect of lower oil prices on the British economy could be presented as positive, this country would benefit relatively very much less than Japan and Germany which could look forward to zero inflation or even a fall in price levels, substantial increases in real incomes, and some reduction in unemployment. It would become harder for the Government to maintain the line that high unemployment was an international problem about which they, like other national Governments, could do little.

f. Some commentators expected the British economy to do much worse than the Chancellor of the Exchequer had suggested; fears had been expressed of a current account deficit, a much higher PSBR, and an increase in inflation of $1\frac{1}{2}$ per cent. The prospect shown by the Chancellor of the Exchequer was much more reassuring, but most of the risks were on the downside.

g. The future stability and growth of the economy depended on the maintenance of confidence that the Government could win the next General Election. If the overall effect of lower oil prices on the economy were broadly neutral - in terms of prospects for inflation and output - would it be possible to make the previously intended fiscal adjustment despite the deterioration in oil revenue? Additional expenditure on housing, construction and the urban programme could prove effective in recovering political support as well as in reducing the numbers unemployed. There was very heavy pressure for additional public expenditure in all these areas, as well as in education.

h. Relatively modest increases in public expenditure could in some circumstances prove the key to much larger increases in

private sector expenditure, with beneficial effects on employment. Possible examples were Urban Development Grant, improvement grants for private sector housing, and improvements to the transport infrastructure. Undue rigour in classifying some of these activities to the public sector should be avoided.

i. Great skill would be needed if an essentially stand-still Budget were to be presented in an attractive way. Efforts would need to be made to find attractive low-cost 'sweeteners' which would attract public support. One possible example might be a concession on gifts to charities.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet fully endorsed the maintenance of the sound and prudent policies pursued by the Chancellor of the Exchequer. They considered it a major achievement that he should be able to avoid any net increase in taxation in his forthcoming Budget, and endorsed his intention to aim at a PSBR a little below the previously projected £7½ billion for 1986-87. They recognised the difficulties the Government would face in holding public expenditure within the planning totals set out in the recent White Paper, particularly in the light of difficulties with local authorities, and agreed that it would be particularly important to look for possibilities of increasing freedom of manoeuvre by making savings in existing programmes. Insofar as the Chancellor of the Exchequer had any room for manoeuvre in his Budget, they considered that this should be devoted to measures which offered the prospect of some reduction in unemployment at very modest budgetary cost. They agreed that possible minor concessions should be sought which would make the Budget attractive and interesting, but without having any major effect on the underlying arithmetic. Similarly consideration should be given to modest public expenditure proposals where these could be shown to be the key to much larger expenditure by the private sector. The overall fiscal stance should be a cautious one, as recommended by the Chancellor of the Exchequer; it would always be possible to relax that stance later if circumstances permitted, while a Budget incorporating unjustified concessions could do damage which would be very hard to reverse. Meanwhile greater efforts should be made to secure wider understanding of the need to reduce the rate of increase in unit labour costs, which remained a major obstacle to the achievement of lower interest rates and lower unemployment.

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

14 February 1986