

PRIME MINISTER

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c.c. Mr. Owen

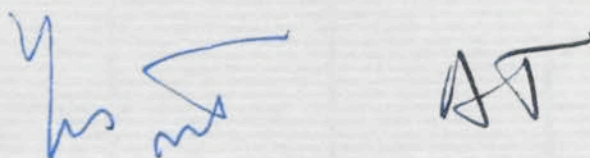
PUBLIC EXPENDITURE SURVEY

The Chief Secretary has received comments from colleagues on his proposals for the 1984 PES guidelines. He now seeks authority to launch the Survey.

There were three significant comments:

- i) Mr. Heseltine said he would not identify options as this would be inconsistent with "Government policy to give priority to national security". I can see he has a case for 1985-86 which is subject to the NATO commitment, but not thereafter.
- ii) Sir Keith Joseph suggested the options should be phased in as 1 per cent, 2 per cent, 3 per cent.
- iii) Mr. Fowler did not dispute the 2½ per cent uplift for establishing the baseline but argued that, because a large part of his programme is determined by inflation in the year before, 2½ per cent would not be sufficient to maintain pensions in real terms. As a result he would inevitably make a big claim on the margin created by having 2½ per cent uplift.

Having studied these arguments, do you nevertheless agree that the Chief Secretary should proceed?



6 April 1984