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DSG 42

MR. REDWOOD cc: Mr. Alison

During her meeting with colleagues this morning, the Prime Minister, building on Mr. Gummer's contribution to the Public Expenditure Meeting yesterday evening, said that one way in which parents might be encouraged to contribute to education was by repealing the provision in the Education Acts which prevents them from taking over (if they so choose) village schools due for closure. The Prime Minister thought that this might be a suitable provision for a Private Members Bill.

The Prime Minister did not ask us to take any immediate action on it beyond noting it for future reference. I do so by sending this minute to you, with the suggestion that Mr. Letwin might like to comment to the Prime Minister on the merits of the idea and advise on whether it would be timely to take it up with the DES.

FERB

24 June 1985

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SUBJECT cc Master.

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RECORD OF A MEETING OF THE CABINET HELD AT CHEQUERS ON SUNDAY 23 JUNE 1985 AT 1630 HOURS TO DISCUSS PUBLIC EXPENDITURE PRIORITIES

PRESENT:

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 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
Ministry 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 Hailsham of St Marylebone
Lord Chancellor

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

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

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 Young of Graffham
Minister without Portfolio

The following were also present:

The Rt Hon John Wakeham MP
Chief Whip

John Selwyn Gummer MP
Paymaster General

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Sir Robert Armstrong, GCB, CVO) Mr Brian Unwin)		Cabinet Office
Mr. Alan Bailey) Mr. Michael Scholar)	H M Treasury	
Mr. John Redwood	Policy Unit	
Mr. Robin Butler	Private Secretary	
Mr. Andrew Turnbull	Private Secretary	

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PUBLIC EXPENDITURE PRIORITIES

Opening the discussion the Prime Minister said the suggestion for the meeting had arisen from discussion after last year's public expenditure round when it was agreed that it would be useful for Cabinet to meet in a more informal atmosphere, outside the public expenditure round, to take a longer term look at trends and priorities in public expenditure. The meeting was not intended to be a pre-run of the Chief Secretary's bilaterals and should not go into the details of individual programmes. She asked colleagues to approach the discussion from the stand-point of the Government as a whole and not as departmental advocates. The discussion should centre on public expenditure priorities over the timescale of the 1984 Green Paper, the Next Ten Years. The aim must be for changes in priorities to take place within the total for public expenditure which should be held down as far as possible.

The Prime Minister said the Cabinet were meeting against the background that despite all its efforts public expenditure had continued to rise in real terms and as a proportion of GDP. In consequence, the tax burden had risen. For example, a State Registered Nurse, whose pay was being taken up to £140 a week next February would pay £40 (28.5%) in income tax and national insurance contributions. A married man on average earnings (£194 pw) was also paying around 29%.

The Government had come into office with two priorities - defence and law and order. These promises had been delivered but it was now right to look again at priorities into the next Parliament.

The Prime Minister drew attention to the £15 billion of administrative costs of central government which were rising faster than inflation. The forthcoming report on public expenditure by the CBI drew attention to the relationship between the growth of GDP and the growth of public expenditure for a number of industrial countries. This relationship was particularly adverse in the UK.

The Chief Secretary gave a presentation of the main trends and prospects for public expenditure. His first slide showed that public expenditure had continued to grow in real terms since 1979. All that had been achieved was that the rate of growth had been cut from the 3% seen on average in the 1960s and 1970s to 2%. If debt interest were included and asset sales were excluded, as many observers argued, there was no change in trend. Nothing had been achieved comparable to the cuts Labour had made in 1976-1978. The second slide showed public expenditure as a proportion of GDP. This had reached a peak in 1982-1983 and had been declining since then though this downward movement was temporarily interrupted in 1984-1985 by expenditure on the coal strike. Nevertheless the ratio was still higher than when the Government came into office. Many other countries had shown greater determination in tackling rising public expenditure, especially in the field of social security.

The Chief Secretary said the Green Paper had proposed that the objective be to hold public expenditure broadly constant in real terms. He believed this should remain the objective, with changes in priorities taking place within this total. Slide 3 showed the changes in priorities which had taken place since 1979. Some, such as law and order and defence, had been consciously sought, while others such as local authority current expenditure and social security had been the result of unwanted pressures. Housing had suffered the largest decline, though this had been identified in Opposition as a programme where greater private provision could take over from the public sector. Slide 4 showed the changes in priorities over the next three years as indicated in the White Paper. Health, social security and defence were expected to increase still further in real terms though less rapidly than in the previous six years. Slide 5 showed that nearly 80% of expenditure was represented by programmes which were difficult to control such as debt interest or local authority expenditure, or programmes which the Government was committed to maintaining or expanding such as health, social security and defence. Unless savings could be made in these programmes the pressure on the remaining 20% would be intolerable. Finally, Slide 6 showed that tax plus national insurance contributions had also risen as a proportion of GDP since 1979-80, although there had been significant changes in composition.

The Chancellor of the Exchequer said that between now and the election the Government could deliver:

(i) low and falling inflation. He believed 3% by 1988 could still be achieved though this could not be guaranteed;

(ii) sustained economic growth and rising living standards;

(iii) significant tax cuts which he regarded as both economically desirable and politically essential.

The Chancellor said the Government's record on taxation was a very modest one. Although changes in the structure of taxation had been achieved the level of taxes had risen. The last Labour Government had inherited the ratio of tax to GDP of 33% and had left office with the ratio at 34%. Under the Conservatives this had risen to 39% (37% if North Sea oil taxes were excluded). If the bids for extra public expenditure were accepted all hope of tax cuts for the remainder of the Parliament would be extinguished.

The Chancellor thought it unlikely that unemployment would move sharply in either direction over the next two years. The best contribution the Government could make to improving employment prospects was to keep the recovery going on a sound basis.

The Chancellor then turned to the areas where he thought savings could be made. The changes proposed in the Social Security Green Paper were helpful but more was needed in this area. The Government was hamstrung by a number of pledges and it was essential that it should enter the next Parliament with more freedom for manoeuvre. In the NHS there was still scope for greater efficiency. The new system of local authority finance must be designed to deliver a greater degree of restraint. In defence the priority was to look for better value for money. Some of Britain's commitments would also have to be re-examined. The growth of expenditure on agriculture, particularly that arising from the CAP, must be reined back. He emphasised that the Government was not seeking to cut public expenditure in total but to hold it steady. He stressed the need also to pay more attention to output for the money spent.

The Secretary of State for Education and Science questioned whether the phrase "tax cuts" was the right one. The Government's priority on taxation was to raise tax thresholds and ease the position of those whose incomes were just above the poverty level. Use of the term tax cuts did not always make this clear.

The Secretary of State for Education and Science said the Government had done well in reducing expenditure arising from the nationalised industries though more could be done. Savings could be made on the substantial expenditure of the MSC. He believed Scotland was very much better provided for in terms of public expenditure than the North of England. He believed defence and law and order were now over provided for.

He would devote any savings made to the encouragement of enterprise and the easing of the poverty trap and the "Why Work?" syndrome. He believed Britain had been extremely successful in scientific research, though the country was continuing to suffer a brain drain. Basic research should not be neglected and centres of excellence should continue to be supported.

He recognised that additional resources would not automatically deliver better education but he was extremely worried about the low quality of education in Britain. All the elements for an increase in standards were either in place or had been announced and were awaiting implementation. The last remaining obstacle was an improvement in the performance and management of the teaching force for which appraisal and better in service training were essential.

The Secretary of State for Scotland said he very much welcomed the opportunity to discuss public expenditure priorities. Ministers needed a system which enabled them to make changes in programmes without these being fought out bilaterally. He supported the emphasis on better quality of education and the emphasis on securing better value for money. He suggested that, in calculating running costs there should be an assumption that productivity would be raised by 3% a year. This would require managers of programmes, as a matter of course, to seek more output each year from the resources they had available.

The Lord Privy Seal said the Green Paper objectives sounded reasonable but if increases in defence, law and order and social security were to be accommodated there would be a severe squeeze on the remaining programmes. The Environment and Education programmes were suffering severely through this process. He believed there was a major task of rehabilitation in these two areas. He believed it was mistaken to be talking of cuts when the Government was in practice in the business of the planned growth of public expenditure. While the emphasis should be on wealth creation this should not allow the Environment and Education programmes to be denigrated. A change of rhetoric was needed.

He thought it was unfair to represent the discussion as a dispute between those who wanted tax cuts and those who wanted growth of public expenditure. He believed the emphasis should be on producing a fairer tax system through higher tax thresholds. This had more appeal than calling for tax cuts to release entrepreneurial initiative.

The Foreign Secretary said the first priority must be to control borrowing. He believed the Government had gone as far as it could in easing the burden of taxation on entrepreneurs. The priority should now be for raising the taxation threshold. He, therefore, agreed with those who advised against presenting this as "tax cuts".

He suggested that Ministers should identify those changes in expenditure which could be made before the election and those which could only be made after it. He agreed on the importance of avoiding too many pledges.

The problem of pay in the public sector arose from the fact that pay in the private sector was rising too fast. This made it all the more essential to get across the relationship between pay and employment, though this was difficult when the Government was seeking to take credit from rising living standards.

The Government must look again at the issue of indexation of pensions, which other countries had been more successful in tackling. The growth in the defence and law and order programmes should come to an end. He welcomed the emphasis on competitive tendering and collaboration as a way of reducing defence procurement costs but he was worried about the size of the defence R&D effort. This represented a quarter of the country's total R&D. There was still more to be done on nationalised industries. Agriculture should be looked at in a longer term context. Twenty-five years ago it had been expected that the countries of Asia would have difficulty in feeding themselves but the only areas where food supply was a problem were the Soviet Union and Africa. He believed the production of surpluses in the developed world was damaging to the Third World. There was no point in seeking still further production through capital grants and subsidised research.

On health, the Government should consider the privatisation of the general dental service and reduce the very wide exemptions from prescription charges. He said the MSC had failed to use the money set aside for the community programme in the way he, as Chancellor of the Exchequer, had originally intended in the 1982 Budget. The number of jobs created had been lower and the programme had not contributed to lower wages.

The Chancellor of the Duchy of Lancaster accepted the analysis of the Chancellor and the Chief Secretary. He suggested the tax objective could be presented in terms of greater take home pay which was helpful both in promoting lower wage settlements and in improving work incentives. He agreed with the Lord Privy Seal that the Government faced a difficult problem over public services. It was getting the worst of two worlds - spending more but being seen as hostile. The way through was to stress value for money. The public would respond favourably to this as, although the public services were valued, people were aware of their shortcomings.

He noted that spending on unemployment benefit had risen rapidly while that on housing had declined sharply. He wondered whether there was some mechanism which would allow expenditure on unemployment benefit to be channelled into the housing programme.

The Secretary of State for the Environment argued for a shift of emphasis from a pure cost per job assessment of individual programmes to one which included an allowance for assets created or repaired. Work in the Manpower Group showed that the ranking of different programmes was significantly changed if assets were allowed for. He drew attention to the very sharp reduction in public sector construction expenditure.

He questioned whether the Government's record on controlling local government expenditure was as poor as it had been represented. In the current year expenditure was likely to increase by less than 1% in real terms compared with 3½% in the 1970s. He believed this had contributed to the Government's loss of control of the Association of County Councils.

The scope for savings from Value for Money initiatives remained enormous. The Audit Commission had identified seven areas where savings of £665-860 million a year could be made by bringing the more extravagant local authorities into line with the rest. He would be putting proposals to colleagues for ways in which the Commission's recommendations could be followed up. He shared the concern of others about the excessive size of defence R&D which was substantially out of line with experience in other countries.

Asset sales must remain an important part of the Government's policy and should be undertaken even when some pump priming expenditure was needed to help the transfer to the private sector. Instruments such as urban development grant could make an important contribution in helping private sector developers to take over and refurbish local authority assets.

The Lord President endorsed the objectives set out by the Chancellor and the Chief Secretary. He believed particular attention should be paid to the problem of controlling local authority expenditure. Experience had shown that local authorities would defend themselves ruthlessly against anything which challenged their interests. He said that successive Governments had sought improvements by changing the structure of local government but this had been disappointing in its results and he hoped changes in the structure would not be pursued further.

Changes were, however, needed in the system of local government finance which was excessively complex. Any new system must put pressure on local authorities to be more financially responsible. He was prepared to contemplate greater centralisation if central Government could genuinely provide the services better. In the field of education he believed the balance of advantage now favoured more centralisation though, on balance, he continued to oppose a national police force.

The Minister for Agriculture agreed that expenditure on agriculture was growing too fast but he drew a distinction between the domestic budget which was declining and European expenditure which was still not under proper control.

He believed there was not enough political input into the process of decision making. A distinction needed to be made between the beginning and end of a Parliament. Difficult decisions were more easily taken in the first half of a Parliament (he wondered whether the Social Security Reviews would have been better introduced a year earlier). Work should soon be set in hand to prepare for the difficult decisions at the start of the next Parliament.

The Secretary of State for Trade and Industry said the discussion about what could be afforded within the nation's resources was difficult because the country's record of wealth creation was so poor. The first priority must be to improve the performance of the economy. Although the Government had delivered on its promises it had received very little credit for this. The Government could take some satisfaction from its record in reducing public expenditure arising from the nationalised industries.

Looking at priorities ahead he noted that in 1979 the housing and Scotland programmes were the same size but the Scotland programme was now twice as big. The trade and industry programme had started three times larger than agriculture and was now slightly smaller. The rapid rise in debt interest provided an effective rejoinder to those who advocated higher borrowing.

The Government's priorities must be for the creation of wealth and for policies which were politically attractive. This led to the conclusion that the tax burden must be reduced as this scored on both counts.

The Secretary of State for Northern Ireland said some other countries, even with weaker Governments, had been more successful in tackling public expenditure. It would be helpful for Ministers to have a note setting out what had been achieved abroad.

He agreed with the Lord Privy Seal that the Government needed to distinguish more between different programmes. The Government's current unpopularity was not on account of unemployment but because people were worried about the erosion of standards in the health and education services. The Government must publicise its achievements and show that it had remedies. He agreed that the current dissatisfaction over education was dangerous politically.

He welcomed the opportunity for a broad discussion of public expenditure and hoped it could be repeated more frequently. This would be helpful to the Star Chamber and the Treasury in their discussions on individual programmes.

The Secretary of State for Defence said the Government's scope for manoeuvre on public expenditure this side of the election was very limited. The emphasis must be on the creation of wealth and he regretted that despite asset sales and substantial revenue from North Sea oil the Government had cut capital expenditure and increased current expenditure. He suggested that a change in the machinery of Government was needed to redress this balance. Inevitably the Treasury was driven to find savings wherever it could, which usually meant capital spending, but an expanded role for the Department of Trade and Industry would provide a counter-balance to the interests of the Treasury.

Priority should be given to urban stress areas. The development agencies in Scotland and Wales had been very successful in bringing in private sector money and in bypassing the obstructions posed by the local authorities. He believed more use could be made of agencies in the cities and regions in England.

The Government should look again at the Hardman proposals on dispersal. Decision making was little by little being concentrated in the south of the country because the decision takers preferred to live there.

The Government should break away from automatic indexation of social security benefits, though this protection might be retained for the poorest members of the community.

In the south of England an unemployment rate of 7-8% now represented full employment. Jobs were available if people were prepared to change their assumptions about the nature of work they were prepared to undertake. The Government should toughen up on the administration of unemployment benefit in these areas but this initiative would backfire if applied to those regions where unemployment was genuinely a problem.

He supported the efforts being made to improve the quality of education and training and regretted the fact that over the years the public sector's role in providing training had increased. The privatisation programme should be pressed forward. This was an area where the Government had succeeded in winning the intellectual arguments.

On defence he was not arguing for an increase but a programme which was static in real terms. Defence R&D was largely development rather than basic research; the private sector drew substantial spin-off benefits from it.

On taxation, enough had been done for entrepreneurs. Tax cuts were not needed either for small scale businessmen and the self-employed who were thriving in the black economy. He doubted, however, whether tax cuts produced much response in terms of greater work or lower pay settlements for employees in the middle. The politics of tax cuts were not so attractive as had been claimed.

The strength of the Audit Commission was that it was not appointed by the local authorities. In time the same principle should come to apply for public companies. So long as the auditors were appointed by the management they would not be able to take a genuinely independent line.
The <u>Secretary of State for Social Services</u> supported the general strategy as set out by the Chancellor. He had noted

the latter's remarks about unemployment but was worried about the implications for Government held marginal seats in the Midlands where male unemployment approached 30%. Unemployment amongst ethnic minorities was even higher and the potential for social conflict this created needed to be watched carefully. He supported the view that the priority was the creation of wealth and the reduction in costs imposed on industry.

He did not accept that the Social Security Reviews had come too late. In fact, the Government had done well to bring back social security back on to the agenda after the difficulties created by the CPRS Report in 1982. He said 60% of the social security budget was currently pledged. De-indexation would be difficult to achieve especially as the ending of SERPS would put more pressure on demands for improvements in the basic pension. It was very difficult at an election to escape making pledges.

On health the Government had not been successful in getting across the message about improvements in efficiency. This year health authorities would be producing savings of £150 million. But for these, the nurses' pay award would have swallowed up all the money for improved services. The Government must switch the debate away from the structure of the health service to improved management and must establish in the public's mind that the Government was concerned with the quality of service.

If the proposals for tax allowances in the Chancellor's Green Paper were implemented on a no loser basis there would be a substantial cost. The claim for this would have to be balanced against other demands.

The Minister Without Portfolio said the top priority was to raise tax thresholds. It was essential to improve the relativity between working and being on benefit. This was the only way to stop the drift into the black economy, which was absorbing vacancies and preventing the unemployment figures from improving.

He endorsed the view that the Government should improve the quality of its spending and was prepared to see more centralisation in education if it was necessary to achieve this. He accepted that the community programme was not working as well as had originally been hoped.

The Secretary of State for Wales endorsed the importance of securing better value for money in the social programmes. In the health services it might be better to talk about contracting in private sector resources rather than contracting out services. He gave the example of a health authority which had brought in the private sector to operate renal dialysis. He shared the concern about the quality of education.

There was a need to think again about the way pay assumptions were set. It was important to give managers an incentive to make the savings but one of the results of the nurses' pay award was that improvements in service which health managers were hoping to introduce as a result of improvements they had made had now been postponed as the money was required to finance higher pay. This had been damaging for managerial morale.

The lesson of development agencies from Wales was that a small amount of public money could have a multiplier effect on the amount of private sector money, e.g. in urban areas.

He recognised that asset sales were not equivalent to other savings on expenditure. Nevertheless, there was a case for using the proceeds from such sales to lift tax thresholds. This would improve the functioning of the economy and would enable the lower level of taxation to be sustained in the long run.

The Secretary of State for Energy said the next election would be different from any preceding one. The Government would face two major opponents with the Alliance being the principal opponent in one area and Labour in the other. Labour would court the working class vote over such issues as lower health charges and council house rents, while the Alliance would go for the management vote.

Commenting on the Chancellor's account of economic prospects, he pointed out that inflation was vulnerable to outside factors such as the exchange rate and the growth of wages. The record of sustained growth had to be seen in perspective; it came after a very major fall in output.

He believed that the tax system in Britain provided excellent rewards for proprietors but inadequate rewards for management. Proprietors were able to convert future earnings into capital which was relatively lowly taxed, while managers could not convert future income into capital. Further improvements in capital taxes were a low priority.

Spending on education and health commanded a substantial amount of support from Conservative voters. He noted that other countries spent more on these services both in the public and private sectors. The country needed more wealth creation but as part of a better life in general. The rhetoric of public expenditure cuts and tax cuts was unattractive and the emphasis should be on increasing wealth as a means to better social services.

He pointed out that increases in the tax threshold were poorly directed as the benefit went all the way up the income scale.

The Secretary of State for Transport thought that the meeting had generated more bids for additional expenditure than proposals for savings. He believed the Government should be much more selective in its public expenditure. Too many benefits were provided to people of all income levels. For example £300 million was paid as a subsidy to wealthy London commuters, £300 million to subsidies for London Transport and £300 million on bus passes for pensioners regardless of their income. He therefore welcomed the decision not to uprate child benefit fully and hoped that the principle of restricting universal benefits would be applied more widely. Mortgage interest relief was a major example of a tax relief that was inadequately targetted. By reducing these general subsidies and benefits people would keep more of their own income and would be able to augment from their own pockets the publicly provided services of health and education.

The Secretary of State for Employment said the Government inherited an economy which was high on expectation and low on performance; wealth creation was rightly made a priority. He warned that the population of working age would increase by half a million by 1990 and the activity rate would add another 370,000 to the labour force. This would imply 870,000 extra jobs by 1991 to hold unemployment constant.

On unemployment, he believed there were sharp differences between the north and south of the country. In the south there was virtually no unemployment in the sense of people available for work who could not find work. His Department had set in hand work to analyse the labour market in the south of England.

He suggested also that the Treasury accounting conventions on current and capital expenditure and annuality should be reconsidered.

The Paymaster General believed the Government had not lost control of the ACC because of general restraint on local authority expenditure but because people believed the Government was putting pressure on particular services. The sharp distinction between public and private sector provision was damaging. In education and health there was no mechanism whereby people could finance improvements in service from their own pockets. This explained the high level of expenditure in Britain on consumer durables. He contrasted this with housing. One of the merits of council house sales was that it enabled the new owner occupiers to spend their own money in a way which took the pressure off the Government. With health and education all the pressure was on the Government to improve the basic publicly provided service. He believed the public perception of the Government's record on the health service was improving but in education the local authorities had been allowed to exploit the dispute to the Government's disadvantage.

He agreed with those who said there was little true unemployment in the south. He believed that complaints about unemployment there were frequently a cover-up for other complaints, e.g. about education or the health services. Unemployment was however a genuine problem in the north of the country.

He pointed out that if the Government held all the seats where the Alliance came second it could win an overall majority while losing all the seats where Labour came second.

The Home Secretary agreed that the Government had done enough to improve tax incentives at the top but had as yet not done enough at the bottom end. While it was important to raise tax thresholds, reducing taxation was a secondary priority to keeping borrowing under control.

He agreed with the importance of creating more wealth but was disturbed that some colleagues believed this could be achieved through increases in certain kinds of public expenditure. Defence R&D was too high; it was not spin-off which the private sector needed but direct involvement in research. He shared the disappointment that, in the face of union opposition, Community Programme had been forced to pay "the rate for the job". He agreed that the law and order programme should not be increased further except possibly in relation to drugs. There was scope for further expenditure savings on nationalised industries, especially through privatisation.

The Prime Minister said that a number of themes had emerged from the discussion. There was substantial agreement on the need to continue restraint of public expenditure and to learn to live within a disciplined budget. On taxation the priority was to raise thresholds rather than provide further incentives at the top end. The tax burden should not be so high that people could not provide for themselves in areas such as housing, health and education.

There was agreement that wealth creation must precede improvements in social services. A number of colleagues had identified defence research, the Scottish programme, MSC programmes, agriculture and nationalised industries as meriting critical scrutiny. It was generally felt that an improvement in educational standards was essential, though it was recognised that this could not be achieved simply by an increase in public expenditure. A number of colleagues had made useful suggestions about ways in which the Government's presentation could be improved. In particular, the need to stress Value for Money had been noted.

The Chancellor of the Exchequer agreed that better presentation was necessary. He pointed out that during the course of the public expenditure round, there was adverse publicity about cuts. In practice Ministers were frequently arguing about additional bids. The lesson was that additional bids should be avoided and that the confidentiality of discussions should be maintained.

He referred to the threat to unemployment of excessive private sector pay increases, which put pressure in turn on the public sector, and suggested that it might be worth considering whether a different definition of unemployment could be employed, along the lines of the approach in the Department of Employment's Labour Force Survey. He also drew attention to the disappointing return from the large sums spent on education, although the fault was primarily that of the local authorities.

At the conclusion of the meeting, the Prime Minister proposed the terms in which the No. 10 Press Office should brief the media on the outcome of the meeting. A copy of the statement is attached.

PRESS LINE

The Cabinet this evening held an informal meeting at Chequers under the Prime Minister's chairmanship to discuss the Government's priorities for public expenditure in the longer term. It arose from a discussion last year after the annual public expenditure round. It was then agreed it would be useful for the Cabinet to meet in a more informal and relaxed atmosphere, entirely divorced from the PES round to take a longer term look at trends and priorities in public expenditure reaching into the 1990s. In the discussion at tonight's meeting Ministers looked at the subject as a Government with collective responsibility for the thrust of policy rather than as individual Departmental Ministers each with his own Departmental budget in mind.

The discussion will assist the Cabinet and individual Ministers when they turn next month to the PES round covering 1986-87 to 1988-89.

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