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RECORD OF MEETING BETWEEN THE PRIME MINISTER AND LORD PRIVY SEAL, 11 JULY 1985

The Prime Minister hoped that, at the Cabinet meeting to follow, the Lord Privy Seal would give strong support for holding to the established expenditure figures, which she pointed out had already been increased by £2 billion in the budget. The public expenditure round was an occasion when the Cabinet must show both strength and coherence. She had been disturbed by the references the Lord Privy Seal had made at Chequers and in his Birmingham speech to "the planned growth of public expenditure". The Government should set itself a budget and arrange its priorities within it, achieving better delivery of services by improved value for money. She accepted that many of the programmes where there had been additional expenditure had been those to which the Government had given priority; in a sense one could speak of planned priorities.

The Lord Privy Seal said he was trying to show that the Government had increased expenditure where it had promised to do so. The Government should not deny itself the opportunity to take credit for its record. This should not be interpreted as meaning that he had joined the big spenders. He did not believe that the Government should use public expenditure as an instrument of economic and social policy. He did not, however, believe that the total of public expenditure should necessarily be held constant in real terms. He had taken the view that public expenditure had been sustained in the recession and that in the recovery it should not grow pari parssu with GDP. But this did not rule out some growth of public expenditure. A politically attractive balance had to be struck over the way in which the additional resources made available by growth were used - whether in lower taxes or better public services. He did not believe people were enslaved by transfer payments such as pensions or

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that there was now substantial resentment about the level of tax. By contrast there was a strong desire to see better public services, especially housing and education which had fared badly over the past five years.

The Prime Minister countered by saying that the burden of tax at the lower levels was still excessive. Ministers had not fully accepted that nominating new priorities meant that existing priorities had to be down-graded.

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(ANDREW TURNBULL)

11 July 1985

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