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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 9 FEBRUARY 1984
at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham
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 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 Nicholas Ridley MP
Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

Mr John Wakeham MP
Parliamentary Secretary, Treasury

Mr John Gummer MP
Minister of State, Department of Employment
(Items 1 and 2)

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 5-7)
Mr D F Williamson (Items 3 and 4)
Mr M S Buckley (Items 5-7)
Mr D E J Jago (Items 3 and 4)
Mr R Watson (Items 1 and 2)
Mr S B Hickson (Items 1 and 2)

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MR HAROLD MACMILLAN

1. The Cabinet recorded its warmest congratulations to the Right Honourable Harold Macmillan OM FRS, on the attainment of his ninetieth birthday, and recalled with pride, with gratitude and with affection his lifetime of outstanding service to his country.

The Cabinet -

Requested the Prime Minister to convey its congratulations and greetings to Mr Macmillan.

PARLIAMENTARY AFFAIRS

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

FOREIGN AFFAIRS

Lebanon

Previous Reference: CC(84) 4th Conclusions, Minute 2

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that, following the sharp deterioration in the security situation in Beirut and the disappearance of all prospect of a reconciliation between parties in the Lebanon for the foreseeable future, the British contingent to the Multinational Force (MNF) had redeployed to the Royal Fleet Auxiliary (RFA) Reliant on 8 February. Although there had been no conclusive statement from the Italians and the French on the withdrawal of their elements of the MNF, the Italians appeared to be moving to the same conclusion as the United Kingdom. The French position was less clear, but they had more troops on the ground. United Nations (UN) options were being urgently considered, but any request for a UN peacekeeping force would have to come from the Lebanese Government, and the present Government was evidently disintegrating. Although no other country had so far advised its nationals to leave Beirut, he had concluded that facilities should be made available for the evacuation of British nationals, and two car ferries had been taken up for this purpose. The plan was to evacuate those in East Beirut through the port of Jounieh. The evacuation in West Beirut would be more difficult and some movement by helicopters could be necessary. Advice would be given during the day to those concerned through the World Service of the British Broadcasting Corporation.

THE SECRETARY OF STATE FOR DEFENCE said that there had been a totally orderly withdrawal of the entire British contingent to the RFA Reliant. All the contingent's equipment had been taken on board with the exception of two four-ton trucks which had been given to the Lebanese armed forces. One of the ferries taken up for the evacuation of British residents was positioned off Jounieh in heavy seas, while the other was ready to sail from Cyprus. Although helicopter forces were

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adequate for this task, the operation was not without risk in view of the continued fighting in and around Beirut. The British contingent to the MNF was in a better position to assist in the evacuation from their present position aboard the RFA Reliant than if they had still been deployed in Beirut. It was a tribute to the way in which the contingent had operated in conditions of great danger that they had not at any time been targeted by artillery over the past year. Proposals for gallantry awards were under consideration.

In discussion, the point was made that the United Kingdom could come under pressure to evacuate the nationals of Commonwealth countries as well as British residents from Beirut. Great care would have to be taken to ensure that those concerned would be accepted by their country of origin if there were any question of evacuating them to the Sovereign Base Areas in Cyprus. It would be important to keep in close touch with the Americans over such an evacuation. The heavy United States bombardment appeared to be an attempt to distract attention from the nature of the American retreat. Their action extended well beyond what could be justified by self-defence, and no Muslims would be likely to join in a government of reconciliation while it continued. There was also a danger that the United States bombardment could provoke attacks on British and other foreign residents in Beirut, of a sort which had not so far occurred. Every effort should be made to bring influence to bear on the Americans to stop indiscriminate firing. This should be done with Italian and, if possible, French support, although the latter were still reluctant to be seen to be acting in association with the United States. The pattern of United States conduct during this crisis had disturbing implications for the reliability of contingency planning with them throughout the Middle East.

THE PRIME MINISTER, summing up the discussion, said that it was essential, in the interest of securing peace in the area, that the United Kingdom should press for an end to indiscriminate firing by the United States and so place the policy of the Alliance on a more sensible footing. Despite the dangers of the Soviet Union exploiting to the maximum differences between the allies, it would be necessary to maintain the United Kingdom position in public that such bombardment to be justified only in self-defence. Any requests for assistance in the evacuation of foreign residents who were not United Kingdom citizens from Beirut to the Sovereign Base Areas in Cyprus should be considered only where it had been established that those concerned would be accepted by their country of origin.

The Cabinet -

Invited the Foreign and Commonwealth Secretary and the Secretary of State for Defence to proceed on the lines indicated by the Prime Minister in her summing up.

COMMUNITY AFFAIRS
Anglo-French Discussions

4. THE PRIME MINISTER reported that she and the Foreign and Commonwealth Secretary had held discussions on 8 February with the French Minister responsible for European Community affairs, Monsieur Dumas.

Agriculture
Previous Reference: CC(84) 4th Conclusions, Minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that there had been a first round of discussions in the Council of Ministers (Agriculture) on 6-7 February on the Commission's agricultural price proposals. No agreement had yet been reached on the continued import of New Zealand butter after 29 February, but this would be further considered at the Council's next meeting before the end of February. There had also been no agreement on the rollover of the Community's directives on agricultural structures. In the light, however, of the advice of the Law Officers and with the agreement of the Chief Secretary, Treasury, he would be announcing in the House of Commons that afternoon that the payment of capital grants and hill livestock grants would now be resumed in the United Kingdom.

The Cabinet

Took note.

ECONOMIC STRATEGY

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(84) 5) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER introduced a discussion of the economic situation, as a background to the decisions which he would be taking for his Budget, to be presented on 13 March; every member of the Cabinet contributed.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted the firm prospect of continuing steady growth and low inflation and the importance of keeping effective control of Government borrowing. There was general agreement on the course to be followed.

The Cabinet -

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

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

6. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(84) 6) about the prospects for public expenditure and taxation in the longer term.

THE CHANCELLOR OF THE EXCHEQUER said that it was desirable to increase public understanding of the longer-term prospects for public expenditure and the level of taxation. The time had come for the Government to contribute to public debate on these matters. Moreover, the Treasury and Civil Service Committee were about to call for a paper

on the issues; and the Government would have to comply. The right course would be to publish an early Green Paper. Previous discussions within Government of the issues had revealed problems. In particular, forecasts of individual programmes were at once misrepresented as Government commitments or Treasury aims. He proposed a different approach. The Green Paper should give historic figures, showing past expenditure trends; it should also draw attention to likely pressures for further increases in expenditure. But the main argument of the paper would be based on projections of aggregate levels of public expenditure and taxation over the period to 1993-94. The projections would assume that the gross domestic product (GDP) would increase at a rate of $2\frac{1}{4}$ per cent a year, and that public expenditure would be held constant in real terms, up to 1988-89. For the rest of the period, alternative projections would be made. The main case would assume growth of 2 per cent a year in GDP, with public expenditure held constant in real terms. Alternative projections, with GDP growing at the rate of $1\frac{1}{2}$ per cent a year, and public expenditure growing in real terms at 1 per cent a year, would also be shown. It would be assumed that the Public Sector Borrowing Requirement (PSBR) would be equal to 1 per cent of GDP by the end of the period. The projections would show that, if GDP grew at the higher rate and public expenditure was held constant, the tax burden (other than revenues from the North Sea) in 1993-94 would be around 32 per cent of GDP, just below the level of 1973-74 but still some way above the early 1960s. On the other hand, if GDP grew at the lower rate and public expenditure was allowed to rise at 1 per cent a year, the non-North Sea burden would stay above the level of 1978-79, which was widely held to be excessive, for almost the whole period. If the Cabinet agreed in principle that such a document should be published, he thought that it would be advantageous to publish it at the time of the Budget. Since several other documents bearing on economic policy would be published at that time, it would avoid appearing to attach undue importance to a document which should be seen as illustrative and non-committal.

In discussion the following main points were made -

- a. It was undoubtedly desirable to promote public debate and understanding of the issues. There were evident difficulties about publishing detailed forecasts for individual programmes so far into the future. It was, however, open to question whether debate and understanding would be effectively promoted if the Government's contribution was confined to the production of aggregate figures. The document proposed in C(84) 6 would be regarded as of great political and social significance and, in effect, a statement of the Government's views on important aspects of the development of British society. It would be necessary to bring out that there were strong demographic and other factors making for continued growth in public expenditure, and that the continuation of existing policies in all public expenditure programmes would make it difficult or impossible to prevent such growth. Only in this way could public opinion be made aware of the hard choices that would have to be faced.
- b. It would be important to bring out more clearly that the proposed Green Paper was illustrative and non-committal. It might be helpful in this respect to include a wider range of assumptions

than suggested in C(84) 6. This applied particularly to the level of the PSBR in 1993-94, which was central to the calculations.

c. Publication of a Green Paper about longer-term prospects for public expenditure would immediately raise questions about the Government's views on the longer-term prospects for unemployment. Ministers would need to be ready to deal with such questions.

d. Some members of the Cabinet suggested that a decision to publish a document on the lines suggested in C(84) 6 would be premature. It would be better to prepare more detailed material, including material on individual programmes, for consideration by Ministers collectively and then to decide whether to publish. Against this, it was argued that previous experience showed that it was difficult to prepare detailed material on individual programmes without leaks and subsequent misrepresentation in the media. The approach suggested by the Chancellor of the Exchequer was the only practicable possibility; and the time was ripe for the Government to contribute to the public debate on expenditure and taxation in the longer term.

e. A Green Paper discussing the longer-term prospects for the overall burden of taxation should also include a discussion of the structure of the tax system. This had two main aspects. First, it was arguable that it would be right on both social and economic grounds to raise tax thresholds dramatically. This would entail some shift in the burden of taxation towards companies. Secondly, it was necessary to bring "tax expenditures", such as capital allowances for companies and tax relief for life assurance premiums, into account.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that a Green Paper or other discussion document, broadly on the lines indicated in C(84) 5, should be published at the time of the 1984 Budget. It should concentrate on aggregates and avoid detailed figures for individual programmes. Its text should, however, include a discussion of the factors generating pressures for increased public expenditure, such as demography and, in some programmes, technology, so as to bring out the need for reductions in expenditure in areas not affected by these factors. The presentation should emphasise the illustrative and non-committal nature of the document. In particular, the Chancellor of the Exchequer should give consideration to the possibility of using a wider range of assumptions than suggested in C(84) 6; but the Cabinet recognised that, if too many and varied assumptions were used, the conclusions to be drawn from the document would be undesirably blurred. The Chancellor of the Exchequer should also consider what could usefully be said in the document about "tax expenditures" and the structure of the tax system, on the lines suggested in discussion. Those members of the Cabinet who wished to be consulted about the drafting of the document or particular parts of it should inform the Chancellor of the Exchequer. No special announcement of the forthcoming publication of the document would be made; but the Chancellor of the Exchequer was free to make it known in response to inquiries that it was expected to appear in due course.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(84) 6, subject to the points made in the Prime Minister's summing up.
3. Invited Ministers who wished to be consulted about the drafting of the proposed document, or parts of it, to inform the Chancellor of the Exchequer.

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7. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(84) 7) on capital and current expenditure.

THE CHIEF SECRETARY, TREASURY said that successive Public Expenditure White Papers had shown a decline in the proportion of capital expenditure within the public expenditure planning totals. A table (1.9) on the usual lines in the forthcoming 1984 White Paper would suggest a fall of nearly 40 per cent in cost terms during the period 1978-79 to 1984-85. This traditional presentation had three defects: figures of capital formation were shown net of asset sales and thus did not measure new work; all defence expenditure was classified as current rather than capital; and external financing limits rather than capital expenditure were scored for the nationalised industries and some other public corporations. The 1984 White Paper would therefore have a new table (1.13) with adjustments to deal with these defects in presentation. It would show virtually no change in cost terms over the period 1978-79 to 1984-85. Although there would continue to be criticism that the level of public sector capital spending was inadequate, it should be borne in mind that some types of current expenditure (for example on industrial training) might be as valuable economically as capital spending; that in many areas, such as housing, it was desirable to encourage a shift to private sector provision; and that the need for capital investment in some areas might decline for demographic or other reasons. Capital investment was therefore a means to an end rather than an end in itself, and the right proportions of current and capital expenditure could not be determined in aggregate. The case for such expenditure could only be considered project by project in the light of expected returns, and it was for individual spending Ministers to judge priorities within their own programmes. In the forthcoming Public Expenditure Survey he would discuss with spending Ministers any proposals for increased capital spending on their merits within the aggregate totals for public expenditure approved by the Cabinet.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that there was widespread concern that constraints on capital expenditure in successive years might be leading to a decay in the public sector built infrastructure which would eventually lead to rushed and wasteful expenditure in the future. In a letter of 3 February 1984 to the Chancellor of the Exchequer, copies of which he had sent to members of the Cabinet, he had suggested that an interdepartmental group should be established to examine the state of the publicly owned civil capital stock of housing and roads, water and sewerage, hospitals and education buildings, the Government civil estate and the capital stock of universities; to evaluate such evidence as was readily available of its present and likely future condition and fitness for its purposes and its needs for maintenance, repair and replacement; to consider means of assessing the position and keeping it under review as a basis for cost-effective decisions on public expenditure and investment; and to make recommendations.

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THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the new presentation of capital spending in table 1.13 of the forthcoming 1984 Public Expenditure White Paper. It was agreed that there was no way of determining in aggregate the right proportions of current and capital expenditure. The Cabinet on balance considered that a wide-ranging interdepartmental review of the kind suggested by the Secretary of State for the Environment was neither necessary nor desirable. It was for individual spending Ministers, who were best placed to assess the capital stock in the areas for which they were responsible, to examine the case for capital expenditure project by project in the light of their judgment of the priorities within their programmes and within the framework of the agreed overall totals for public expenditure.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office

9 February 1984