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CC(82) 38th  
Conclusions

COPY NO 79

CABINET

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

THURSDAY 15 JULY 1982

at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Francis Pym MP  
Secretary of State for Foreign and  
Commonwealth Affairs

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

The Rt Hon James Prior MP  
Secretary of State for Northern Ireland

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Peter Walker MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon John Biffen MP  
Lord President of the Council

The Rt Hon David Howell MP  
Secretary of State for Transport

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

The Rt Hon Baroness Young  
Lord Privy Seal

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

The Rt Hon Norman Tebbit MP  
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP  
Chancellor of the Duchy of Lancaster and  
Paymaster General

The Rt Hon Lord Cockfield  
Secretary of State for Trade

**SECRET**

ALSO PRESENT

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong  
Mr P L Gregson (Items 4 and 5)  
Mr A D S Goodall (Items 2 and 3)  
Mr D H J Hilary (Item 1)  
Mr M S Buckley (Items 4 and 5)  
Mr G Stapleton (Items 2 and 3)  
Mr L J Harris (Item 1)

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PARLIAMENTARY  
AFFAIRS

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

Security of the  
Royal Family

THE HOME SECRETARY said that he was conducting extensive consultations on the recent breach of security involving The Queen at Buckingham Palace, but he hoped to be in a position to make a further statement on the matter in the House of Commons on Wednesday 21 July. It was clear that the failure of security at the Palace had been primarily due to human error rather than to any defect in the arrangements themselves. The division of responsibility for the security of the Royal Family, which had existed for many years with the approval of the Palace authorities, would have to be ended. He intended to announce the appointment of a very senior police officer, whose selection he would personally approve, to take charge of the security arrangements for all members of the Royal Family; **section 31 and section 38**

The statement would be very long if it contained (as he thought it must) the narrative background to the incident at the Palace, and he would discuss with the Lord President of the Council, the Lord Privy Seal, and the Chief Whip the possibility of making this background available to Parliament separately in a written form, but he doubted whether this would be acceptable to either House.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS

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Middle East

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in the Middle East looked increasingly threatening. In Lebanon the negotiations appeared to be making no progress. The Palestine Liberation Organisation (PLO) was unwilling to give up its arms. Israel was becoming impatient and the possibility could not be excluded that it might start a new battle for West Beirut which could lead to a blood bath. The problem of where the PLO was to go remained unresolved: Syria was willing to take the PLO leadership but not the combatants. The same was true of Egypt. The United States, France and Greece were willing in principle to contribute troops to a peacekeeping force: the United Kingdom had not been asked to do so. Meanwhile Iran had invaded Iraq on 12 July and was engaging Iraqi forces on the outskirts of Basra. There was very little information about the situation on the ground and none about Iranian intentions. Iraqi morale was believed to be low and Iran appeared determined to bring down the Saddam Hussein regime. The United Nations Security Council resolution of 12 July had been rejected by Iran, which might well be planning a thrust as far as

Baghdad. There were some 120 British subjects in and around Basra: he was seeking advice from HM Ambassador at Baghdad as to what arrangements might be made for their safety. If the Iranians were to get as far as Baghdad, and if at the same time the PLO was defeated in a major battle in Beirut, this would add up to one of the most crushing defeats which the Arabs had ever experienced in their history and would have far reaching consequences. Even as things were, a permanent and peaceful solution to the problems of the Middle East now appeared more remote than at any time since the Second World War.

THE PRIME MINISTER, summing up a short discussion, said that there was an urgent need to establish the facts of what was happening both in the Lebanon and in the Iran/Iraq war. She had made arrangements to ensure that the Government were kept informed of the findings of a fact-finding mission which had been sent to the Lebanon by the Board of Deputies of British Jews. Consideration would be given to the possibility of a speech either by herself or by the Foreign and Commonwealth Secretary which might express sympathy for the plight of the Palestinian people: but it would be important to emphasise the distinction between them and the PLO, bearing in mind that the British Government had never accepted the PLO's claim to be the sole representative of the population of Palestine. Account would also need to be taken of the concern of the Jewish community in the United Kingdom, which was likely to lead to keen Parliamentary interest. So far, however, the line taken by the Government on the Middle East crisis had commanded wide public support.

The Cabinet -

1. Took note.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he and the Prime Minister had had useful talks with the Secretary General of the United Nations, Senor Perez de Cuellar, during the latter's visit to London on 13 and 14 July. Senor Perez de Cuellar had professed complete understanding for the British position over the Falkland Islands and had made no attempt to press for negotiations with Argentina.

The Cabinet -

2. Took note.

United Nations  
Secretary General

COMMUNITY  
AFFAIRS

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Council of  
Ministers  
(Economics and  
Finance) 12 July

Previous  
Reference:  
CC(82) 34th  
Conclusions,  
Minute 4

United States  
Steel Imports

Previous  
Reference:  
CC(82) 35th  
Conclusions,  
Minute 4

3. THE CHANCELLOR OF THE EXCHEQUER said that the Council's discussions on the promotion of investment had underlined the importance of maintaining the present general economic framework and the need to give priority to getting inflation down. The Council would come back to this in October. Little progress had been made on company law reform.

THE SECRETARY OF STATE FOR INDUSTRY said it was important that the next meeting of the Foreign Affairs Council on 19-20 July should agree on how to tackle the United States Government over its penalties on imports of steel from the Community. Viscount Davignon was beginning talks with the United States Secretary for Commerce today; it was not clear whether these could lead to a negotiated settlement.

INDUSTRIAL  
AFFAIRS---  
British Rail  
and London  
TransportPrevious  
Reference:  
CC(82) 36th  
Conclusions,  
Minute 4

4. THE SECRETARY OF STATE FOR TRANSPORT said that the British Railways Board (BRB) had announced that it intended on Tuesday 20 July to dismiss the train drivers who were then on strike and to offer them re-employment only if they accepted new contracts including a requirement to work flexible rosters. The aim was to put pressure on the drivers to return to work in the next few days. There were some signs that this pressure might be having an effect; but so far it was not on a large scale. The BRB's objective in the dispute should be to secure other productivity gains besides flexible rostering; but acceptance of flexible rostering was itself the key to major improvements; and the main aim at this stage should be to defeat the strike by members of the Associated Society of Locomotive Engineers and Firemen (ASLEF) and to ensure that they returned to work under conditions including flexible rostering. The way might then be open to secure the outstanding productivity commitments from the other rail unions and to deal with the more general constraints imposed by the 1919 Guaranteed Week Agreement. The position of the Government and the BRB commanded considerable support across a wide spectrum of opinion, including trade union opinion; it was important that the issues should be kept clearly before the public. Supplies of coal from the pits were moving at a lower level than usual, but were still substantial. There appeared to be no risk to supplies of essential materials for industry. There had been some cases of violence, which were being investigated by the police.

There was a risk that if the BRB dismissed members of ASLEF who were on strike, train drivers on the London Transport (LT) underground who were members of ASLEF would strike in sympathy. This would create serious disruption to traffic in London, which would be aggravated if LT drivers who were members of the National Union of Railwaymen refused to cross ASLEF picket lines.

The Cabinet -

1. Took note.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the trade unions concerned were preparing for the strike in the National Health Service (NHS) which had been called for 19-21 July. The Labour Committee of the Royal College of Nursing had met the previous day and had decided to ballot the membership on the latest offer by the Management Side. The ballot could be expected to take about four or five weeks to produce a result. The current pay disputes in the NHS were likely to last a long time. It was essential that the Government should stand firm on its previously stated position, and above all should continue to make it clear that no more money was available. Attempts were being made to inform all workers in the NHS of the details of the

National  
Health  
ServicePrevious  
Reference:  
CC(82) 36th  
Conclusions,  
Minute 4

current pay offers by messages in their pay packets, although these attempts were being obstructed by trade union action in one area. His Department was considering taking advertising space in the media and was also considering the possibility of sending letters to the homes of NHS workers, though this would be a very expensive operation. The position in Scotland was more serious than in England and Wales: many hospitals had been reduced to emergency cover only. It was important that Government spokesmen should draw attention to all cases of union action which damaged the interests of patients. Contingency plans had been prepared to draw on assistance from Servicemen for certain tasks if this was essential.

The Cabinet -

2. Took note.

5. The Cabinet discussed the economic outlook and public expenditure in 1983-84 and 1984-85. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

15 July 1982

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Sir Robert Armstrong  
(Bound Volume)

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 38th Conclusions, Minute 5

Thursday 15 July 1982 at 9.30 am

PUBLIC  
EXPENDITURE  
SURVEY

The Cabinet discussed memoranda by the Chancellor of the Exchequer (C(82) 27) on economic prospects, and by the Chief Secretary, Treasury (C(82) 28) on public expenditure in 1983-84 and 1984-85. They also had before them a letter of 13 July from the Secretary of State for Industry to the Chancellor of the Exchequer about the outlook for industry.

THE CHANCELLOR OF THE EXCHEQUER said that the world economic situation was difficult. The Organisation for Economic Co-operation and Development (OECD) was forecasting economic growth of only  $\frac{1}{2}$  per cent a year for the OECD area, and a fall of 9 per cent in manufacturing output in the United States. High interest rates in the United States were having an adverse effect on economic activity: their future course would depend on the United States budget deficit. The United Kingdom had been more successful than some other countries in breaking the link between its own and United States interest rates. Some countries, notably France, had sought to expand economic activity by increasing public expenditure but had been forced by the damaging consequences of this to restore financial discipline. There was widespread concern, which he shared, about the slow rate of economic recovery in the United Kingdom. But industrial production was higher than in 1981; and the latest forecast was for a 2 per cent growth in output in 1983. Progress on inflation had been better than had been forecast at the time of the Budget: the annual rate of inflation was now expected to fall to 8 per cent by the end of 1982, and to 7 per cent by the middle of 1983. Sterling had fallen against the United States dollar, but not against other European currencies. The shortfall in the public sector borrowing requirement (PSBR) in 1981-82 had helped to maintain confidence: the PSBR in 1982-83 was developing much as had been expected. Unemployment continued to rise, though more slowly than in the recent past and in several other western countries. The best chance of containing or reducing unemployment was to foster confidence in industry. This required that the Government should hold to its public expenditure plans, not only in the interests of preserving its credibility but also to keep open the possibility of fiscal measures helpful to industry.

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He was confident that the Government strategy was correct; but there were some things that could be done to improve the pace of recovery. Money being spent, especially by the Manpower Services Commission, to reduce unemployment should be deployed to maximum effect and in a way that attracted maximum attention. More should be done to publicise and promote the changes the Government had made to encourage enterprise. The Government should support reductions in industrial costs, by encouraging pay restraint and efforts to improve productivity

THE CHIEF SECRETARY, TREASURY said that the Government had settled its plans for public expenditure in 1983-84 and 1984-85 in November 1981; it had published them in March 1982. The planning totals stood at £120.5 billion for 1983-84 and £127.7 billion for 1984-85, including additions of £7 billion and £5 billion respectively agreed during the course of the 1981 Public Expenditure Survey. Nothing had happened to invalidate the figures: if anything, inflation and pay settlements had run at a lower level than had been assumed. To hold to the plans should leave room for modest tax reductions in 1983, which would benefit industry and aid economic recovery. Reductions in taxation or interest rates were preferable in this respect to increasing public expenditure. Since the present Government had been elected in 1979 public expenditure and taxation had increased as a proportion of national income. This was contrary to the Government's political and economic philosophy and should be reversed. Bids had been submitted by Departments for additional expenditure of £6 billion in 1983-84 and £7 $\frac{3}{4}$  billion in 1984-85; there would also inevitably be additional expenditure because of the Falklands operation. Some of the bids were unavoidable. The contingency reserve could absorb some of them, but not all: offsetting savings would also have to be found. Although it would not be easy, it should be feasible to hold to the expenditure planning totals; he asked his colleagues to agree that he should hold bilateral discussions with spending Ministers on this basis. He also proposed that the Civil Service manpower totals proposed in the report by officials circulated with C(82) 28 should be regarded as firm limits.

THE SECRETARY OF STATE FOR INDUSTRY said that he adhered wholeheartedly to the economic strategy outlined in C(82) 27. Industrial performance had not, however, picked up as expected at the time of the Budget; and recent surveys by the OECD and the Confederation of British Industry suggested that prospects were deteriorating. It was necessary to consider what steps should be taken in the near future to reduce industrial costs and improve competitiveness. Lower interest rates would be most helpful, but were to some extent subject to forces beyond the Government's control. It could be argued that there was a need for a carefully chosen package of measures to assist industry, announced or implemented soon after the summer recess. This should include such measures as a reduction in the National Insurance Surcharge; a revival of the small engineering firms investment scheme; ending the four-month deferment in the payment of regional development grants; more generous aid/trade provisions; and a stimulus to the

civil engineering industry. This would be consistent with the general aims outlined by Treasury Ministers, but he did not think it necessary to distinguish as sharply as they did in judging the merits of reductions in taxation and interest rates on the one hand, and well-directed programmes of public expenditure on the other.

In discussion, there was general agreement with the economic strategy outlined in C(82) 27. The Government had shown steady and consistent purpose, which had attracted considerable public support; to change course now would be both politically and economically disadvantageous.

The following main points were also made:-

- a. There was a danger that the Government was under-estimating the adverse political and economic effects of continuing high levels of unemployment. Some members of the Cabinet considered that modest stimulus of the economy on the lines suggested by the Secretary of State for Industry would have a quicker and more certain effect on unemployment than reductions in taxation and interest rates. Moreover, tax reductions were indiscriminate and would in part lead to higher spending on imports. On the other hand, it was argued that past experience in this country, and current experience overseas, showed that attempts to stimulate economic growth by increasing public expenditure had no lasting effect except to increase inflation and the burdens on productive industry.
- b. Many of the difficulties facing industry were its own responsibility: in particular, the serious loss of competitiveness in recent years was almost entirely due to excessive pay settlements. It might be better to use any room for fiscal adjustments to reduce personal taxation rather than taxation on industry.
- c. Even if the measures advocated by the Secretary of State for Industry had merit, there were strong objections to announcing them shortly after the summer recess. It was an illusion to think that the economy could be effectively influenced by frequent small adjustments of fiscal or other policies; and it was important to maintain the maximum freedom of manoeuvre for action in the 1983 Budget.
- d. In principle, it was clearly right to try to stick to the published expenditure plans: indeed, it would be desirable to go lower. Whether it would be right in practice, however, could not be judged until the Chief Secretary, Treasury had completed his proposed bilateral discussions with spending Ministers. It should not be forgotten that, while there had been large increases in some programmes, others had been heavily cut. Further reductions on the scale which the Chief Secretary, Treasury appeared to have in mind might be very difficult to achieve.

e. Rather than stick rigidly in all circumstances to the existing expenditure plans, there might be a case for allowing some relaxation in the restrictions on the PSBR in 1983-84 in order to provide room for tax reductions. On the other hand, this would tend to increase interest rates. It was partly as a result of the Government's success in restraining the PSBR in 1981-82 and 1982-83 that the Falklands operation had been undertaken without serious effects on confidence in the markets.

f. Rayner scrutinies had already identified large savings in expenditure. If the political will was there, further scrutinies could identify more. They should also be extended to cover expenditure programmes, with a view to ensuring that the programmes provided for value for money.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet fully endorsed the economic strategy outlined in C(82) 27, and took note of the economic assessment in it. They also agreed that the aim in the next stages of the Public Expenditure Survey should be to hold to the planning totals for 1983-84 and 1984-85, and approved as firm limits the Civil Service manpower totals proposed in C(82) 28 for 1 April 1984. The scope for savings by further Rayner scrutinies of administration and other reviews of efficiency, and radical examination of expenditure programmes with a view to securing full value for money, should be vigorously explored. The publication in that morning's newspapers of articles about the subjects to be discussed at the meeting meant that there would be considerable speculation about the outcome of the discussion. The Press Secretary at 10 Downing Street would brief unattributably to the following effect:-

'As is usual at this time of the year, the Cabinet began its discussion of public expenditure in the next two financial years. The discussion set the framework for the examination of programmes that will continue through the summer, with a view to decisions in the autumn.'

She trusted that members of the Cabinet would not allow themselves to be drawn into making any comments to journalists that went beyond that, either as to the course of the discussion and the contributions made by particular Ministers to it or as to substantive issues of policy raised in the discussion.

The Cabinet -

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

2. Invited the Chief Secretary, Treasury to hold bilateral discussions with spending Ministers on the basis outlined in C(82) 28, taking account of the Prime Minister's summing up and of the points made in discussion; and to report in due course.

Cabinet Office

20 July 1982