

EC 34
Prime Minister

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MLS 19/10

PRIME MINISTER

Economic Policy and Public Expenditure

C(81) 50 and 51

I believe that you will be discussing with the Chancellor of the Exchequer tomorrow morning the handling of the Cabinet discussion, which has of course been much heralded in the media.

2. Part of the background to this is the political situation, following last week's Party Conference. Another part of the background is the situation in the financial markets. These are reported to be sensitive and nervous. They have to face trade figures and money supply figures this week - and the results of the Croydon by-election. It would be helpful to avoid reports coming out suggesting disagreement and disarray in the Cabinet.

and %
unemployment
figures

No - there are
no new money
supply figures
out this
week.

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3. I gather the Chancellor of the Exchequer may be thinking that against this background it would be better not to drive the Cabinet too hard to reach conclusions, either on particular public expenditure items - it is in any case too soon for that - but even on totals. He will want to try to avoid a situation in which it could subsequently be said that he had tried to get agreement on particular overall figures but had failed to do so.

4. If you accept this - and in the current situation I can see the force of it - it has implications both for the handling of this meeting and for the future timetable.

5. On the handling, you would need to start with an introduction to the effect that this meeting was an opportunity for a general and "second reading" type of discussion, with a view to identifying the general basis on which the public expenditure exercise would go forward but not to deciding upon any specific figures, even totals. At the end of the meeting you would want to say that, particularly in the present state of financial markets, it is very important to avoid any suggestion that there had been "confrontation" at this meeting, that you would be instructing Mr Ingham to give the lobby a low key briefing, and that other Ministers should be at pains preferably not to brief separately or at least to avoid any suggestion of disagreements or confrontations.

6. On the future timetable for the public expenditure exercise, there is bound to be some slippage if there are no specific conclusions at the end of tomorrow's meeting. It will not then be possible to start discussions of particular programmes until there has been another round at Cabinet on Thursday 29 October. I believe that we can accept some slippage, say by a week, provided that decisions on local authority current expenditure totals and on Rate Support Grant percentages are taken on 5 November. If this was the way that things went tomorrow, I would submit revised proposals on timetable for you to consider on your return from Mexico.

REA

ROBERT ARMSTRONG

19 October 1981