

~~Mr. Hodgson~~  
~~Mr. Butler~~  
~~Mr. Verker~~



This warning will  
 further public expenditure  
 cuts will be needed  
 is was, I think, inevitable.

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PRIME MINISTER

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As I warned the Cabinet this morning, the public expenditure position is worse than we had previously expected. The task of achieving the objective of adhering to the net public expenditure totals for 1981-82 to 1983-84 published in Cmd 7841, as modified by the European Community Settlement, now looks like being considerably harder than we thought at the time of the Cabinet discussion on 10 July. It was then agreed to consider some re-ordering of priorities in favour of employment and industrial support measures. But we shall only be able to make any move in this direction, within the agreed totals, if we can agree on significantly greater cuts in other programmes than the Chief Secretary proposed in July and is now in the course of discussing in bilaterals.

2. As I explained, part of the deterioration is in the position of the nationalised industries, notably steel. The Chief Secretary has already proposed that this should be matched by cuts of over £400 million in 1981-82 in nationalised industries' investments. But there is also the real risk that reassessment of the economy in the light of recent events will change the economic assumptions in a way which will add to future public expenditure. I want to reserve judgement, and quantification, until next month, but I think we must now work on the presumption that cuts beyond those which were proposed in July will be needed to fulfil the objective then set for the total of public expenditure. These cuts will obviously need to be greater to the extent that we decide to give greater priority to employment and industrial support.

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3. The Chief Secretary will be in touch with the Ministers concerned about these further cuts, and discussing them in the course of his bilateral meetings in the coming weeks, reporting back to Cabinet towards the end of next month. Many will be politically difficult. But our colleagues should be aware of the prospect before we come to consider additional bids.

4. I am sending copies of this minute to other members of Cabinet, the Minister of Transport, and Sir Robert Armstrong.

*R. Tolhien (Private Secretary),  
on behalf of,*

(G.H.)

18 September 1980