

Part A-

**SECRET**  
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Begins: 11/5/79.  
Ends: 21/12/79.

  
PO -CH /GH/0049  
  
PART A

PO -CH /GH/0049  
PART A

alex (G. Howe)

CHANCELLORS MORNING  
MEETINGS

Disposal Directions: 25 Years

*Wade*  
25/7/95.

1979

u



NOTE FOR THE RECORD

MEETING MAY 11TH

Present: The Chancellor of the Exchequer ←  
Mr Biffen  
Mr Lawson  
Lord Cockfield  
Mr Rees  
Mr Ridley

Cash Limits

1. There was a discussion about the degree of "squeezing" which would be imposed in the adjusted cash limits. It was reported that the CSD were aiming to achieve a 2½% squeeze, while Treasury officials had been aiming at 2%. After further consideration, it was agreed to go for the 2½% proposed by the CSD and that Mr Lawson would get in contact with CSD urgently after the meeting to indicate what line to take.

PRT

2. The Chancellor assigned further work on this subject to Mr Rees, who was asked to take the lead in conjunction with Lord Cockfield, with a particular interest in the immediate future in the general structure of proposed arrangements for PRT.

Dividend Controls

3. It was agreed that these would be allowed to lapse in their normal way, and an announcement would be made to this effect in the Budget Speech, and that holding answers would be given to PQs in the meantime.



2

NEDC Meeting - June 6th

4. The arguments for and against postponing the meeting were considered at some length. In the end it was considered prudent that the meeting should be postponed if possible until after the Budget. One of the reasons was that the agenda would be easier to establish at a later date, when the future role of the NEDC had been more fully considered, not least in relation to the development of "concerted action". It was also suggested that it would be a good idea to discuss the development of these consultative procedures for the Prime Minister at an early date. Note was also taken of the fact that membership of the NEDC would need to be changed before long. The Chancellor reported that, in conversations with Herr Schmidt, it had become clear that the Germans had not discontinued the essence of their own "concerted action". Although the formal proceedings had broken down - because they were cumbersome as well as because of legal intervention of the unions - a very useful informal arrangement was now operating involving all the major social partners.

Economic Progress Report

5. The Chancellor raised the question of whether this publication should continue. After a brief discussion it was agreed that it was not possible to assess whether or not it should continue without having a survey of the readership, to establish its character and degree<sup>of</sup> interest. In the meantime it was agreed that Mr Lawson would be responsible for clearing the "copy".

Morning Meeting

6. The Chancellor established that these would be held regularly each day at 9.00am. There would be a longer meeting on Friday mornings, or on Thursdays if Friday was an awkward day.



3

Conservative Research Department Paper on Waste

7. Mr Ridley reported that a revised version of this was now to hand which he would circulate shortly after final checking.

Draft Cabinet Paper "Scope for Cuts"

8. There was a brief discussion of the issues raised by the draft paper recently submitted by Sir Anthony Rawlinson. It was agreed, amongst other things, that the Treasury would not press for the reductions in motorway spending which had originally been considered desirable.

Sale of Assets

9. There was a discussion of the problems of combining an early disposal of substantial numbers of BP shares with the disposal to BP from BNOC of some of its interests in the more important North Sea Oil fields. Mr Lawson offered the possibility of hiving off a "North Sea Oil assets company" from BNOC, which might provide a useful third way ahead. He undertook to provide a note on this subject by Monday May 14th.

"Preparations for the Budget"

10. A number of questions were raised about the calculations suggested in the paper submitted under this title by Mr Unwin, in particular on the macro-economic effects of the package which Ministers had already outlined to officials. Lord Cockfield reported various comments on these forecasts which had been raised by Mr Lovell, while Mr Lawson referred to a paper on related topics by Mr Middleton. It was agreed that these matters would be reconsidered at a fuller meeting on Tuesday May 15th.



## Finance Bill

11. It was reported that Mr Lawson, Mr Rees and Lord Cockfield had had a discussion with the Revenue about the contents of the Finance Bill. Eight pages worth of items had already been agreed. Eighteen pages worth of items had already been rejected, and about fourteen further pages of suggestions remain to be considered. It was reported that the Chief Whip agreed that the Bill should be taken in a "Committee of the whole House". The Chancellor asked Mr Biffen to undertake the management of the Bill in the House of Commons.

## Opposition Tax Advisers

12. Mr Ridley was asked to consult Mr Cropper and Mr Rees about the future role of advisers who had given valuable help to the Party when in opposition.

Circulation:

Those present

Mr Cropper

*AC*

15 May 1979

2

My. Please keep  
them together. ✓  
4

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 15TH MAY

Present:

- Chancellor ←
- Chief Secretary
- Ministers of State, Commons & Lords
- Mr. Ridley
- Mr. Cropper

Cash Limits and Pay

The Prime Minister's desire for a "squeeze" on cash limits of more than 2½ per cent was noted. NL reported Patrick Jenkin's view that manpower economies in DHSS would waste money and, in his case, greater savings could be found by allowing DHSS more staff for fraud prevention. PR reported he would be seeing Lovelock (C&E) to discuss the implications of the manpower squeeze there, and the possibility was raised of a comparable discussion dealing with the Inland Revenue. The Chancellor

(a) invited JB and NL to consider whether, in the light of the Prime Minister's views, it would be appropriate to treat Departments' pay cash limit blocks in different ways in the light of their varying circumstances. The views of Mr. Butler should be sought on the issue;

(b) asked that representations should be made for NL to attend the Thursday 17th May Cabinet meeting on public spending;

(c) agreed that colleagues should be asked, at that Cabinet, if they could offer, as DHSS had, ways of generating net savings by gross expenditure increases.

(d) affirmed that Departments should not be given latitude to offset the increased cost of pay claims against anticipated reductions in other cash limits;

(e) invited JB to raise at Cabinet the question of early consultations with Civil Service unions about re-setting cash limits, and Mr. Ridley to report before that meeting on any important points to note.

#### Budget Preparations Meeting 15th May

2. AC and NL undertook to arrange for the circulation, before the meeting, of preliminary notes on their investigations into puzzling aspects of the forecasts of the impact of the budgetary package.

#### VED

3. It was noted that Lord Soames and Norman Fowler had both recently written to the Chancellor about decisions on VED, and that their views were compatible with the Chancellor's Budget strategy.

#### The Comparability Commission

4. The Chancellor invited suggestions for two additional members of the Commission, in response to a letter from No.10, provisionally by 5.15 p.m. His private office would investigate the urgency of the request. Mr. Ridley was to contact Sir John Methven and Sir Anthony Royle. Amongst the possible candidates, or sources of suggestion noted were Alec Layborn and Alec Wellings.

#### Opposition Plans for Economies in Public Spending

5. Mr. Ridley reported that the edited notes on economies agreed in Opposition would be submitted shortly to JB.

6

NEDC Meeting 6th June

6. The Chancellor reported the Prime Minister's desire that the 6th June meeting should go ahead under her Chairmanship. It was agreed that this might pose certain difficulties and the Chancellor undertook to raise the matter with her again.

Budget Presentation

7. The Chancellor invited NL and Mr. Ridley to consult about problems of Budget presentation.

Consultations with outside Economists over Budget

8. The Chancellor stated this was an important issue and requested that it should be raised at the evening's meeting on Budget preparations.

Development Land Tax

9. It was agreed that the tax should be retained, probably with a 60 per cent rate and £50,000 threshold.

Customs and Excise Appointment

10. Mr. Godfrey's appointment as Commissioner, by the previous government, to be ratified.

Customs and Inland Revenue

11. The Chancellor raised the question of non-executive 'directors'. Consideration was deferred.

Allocation of Responsibilities

12. It was agreed that the note on this would be circulated.

Vinson/Chown Paper

13. Mr. Cropper was asked to study this.

Pension Funding

14. Mr. Cropper was asked to bring material together for later consideration.

Haddon Cave

15. AC undertook to make soundings.

Budget Broadcast

16. Mr. Cropper was asked to speak to Peter Davies and then ask Anthony Jay's help.

Sale of Assets

17. NL reported the possibility of sale of assets reaching £1½ billion. NL was authorised to write to Ministers concerned, referring to the paper being presented to Cabinet on 17th May by Chief Secretary. NL also reported on conversation indicating that limit to early gilt sales.

Exchange Controls

18. NL pointed out the case to be made for announcing relaxation of Exchange Control on a day when it was not expected, rather than a Budget Day. This issue would be put on agenda for 5.15 meeting.

Social Security

19. An internal meeting would be set up with ~~Patrick Jenkin~~ among colleagues, in advance of a formal meeting with Mr. Jenkins, to discuss the material submitted by Mr. Bailey on 11th May.

*MR*

(ADAM RIDLEY)  
(PETER CROPPER)  
15th May, 1979

Circulation: Those present  
Mr. Battishill

NOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 16TH MAY

Present:

→ Chancellor  
Chief Secretary  
Ministers of State, Commons & Lords  
Mr Ridley  
Mr Cropper

Budget Arithmetic

1. The Chancellor asked for summary of the position ready to present to the Prime Minister this evening - ahead of Cabinet Meeting on the 17th.

NL and AR undertook to bring together the basic facts, and at the same time to launch an up to date re-work of the original "Sighting Shot" paper.

The impact of higher VAT on Government expenditure (especially as seen in the Red Book) caused concern. Some £400m was involved.

A PSBR of £8 billion was to be achieved.

The effect of the budget package on economic activity - and hence on revenue buoyancy was clearly fundamental. Present estimates assumed a contractionary effect.

JB's paper on expenditure cuts only produced £750 million.

This was not enough.

National Savings and VAT refunds

2. NL was looking after savings; PR after VAT refunds



Questions would begin to arise soon on interest compensation etc.

### Export Credits

3. Co-op Bank refinancing of Export Credit was acceptable. (Reference minute of Mr Cowdy 15th May 1979)

### Gilbert Islands

4. NL was attending a meeting. It was understood no new expenditure was envisaged.

### NIESR

5. Chancellor asked AR to contact Keith Hampson re DG Mayes, new appointment at NIESR.

### Lunches

6. As a general rule, Ministers would treat lunches with firms and companies as private social occasions. Meetings for lobbying purposes would take place at the Treasury.

### BNO

7. JB recorded his preference for a BNO solution based on mixed financing rather than on sale of individual assets.

P J CROPPER  
16th May 1979

Circulation: Those present  
Mr Battishill

NOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 17TH MAY

Present:

→ Chancellor  
 Chief Secretary  
 Ministers of State, Commons & Lords  
 Mr Ridley  
 Mr Cropper

Budget Arithmetic

1. It was felt that 15% VAT was imperative and that there must be no retreat on excises. The Minister of State (C) asked whether two or three "compassionate" exceptions might be found in the excise field. It was recalled that the Prime Minister had called for an even lower borrowing requirement than some had envisaged, a request which made a high VAT rate very difficult to avoid.
2. The temptation not to announce in the Budget the actual percentage for cash limit cuts had to be resisted. It had also to be made clear that the cash limits would not be raised to accommodate the higher VAT payments by Government.

Meeting with Officials

3. The Chancellor asked for a meeting on Friday morning 18th May to review the whole budgetary arithmetic and pave the way for preparing a summary note setting out the latest position.

Further Paper from Lord Cockfield

4. AC was requested to prepare a new formulation of the tax



arithmetic and possible variants for 1979/80 (and if possible for 1980/81) taking account of most recent thinking and drawing the comparison with the "Sighting Shot" package. Minister of State (L) would proceed on the basis of 15% VAT, valorised excises, 30% Basic Rate; but the exact shape of higher rate taxation could be deferred; and the buying out of the lower rate band would probably have to be deferred until 1980/81.

Paper for Prime Minister

5. The Chancellor would require a brief summary paper to discuss with the Prime Minister over the weekend.

A handwritten signature in black ink, appearing to be "PK." with a flourish.

PETER CROPPER

17th May 1979

Circulation: Those present  
Mr Battishill



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 21ST MAY

Present:

Chancellor ✓  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Sir Douglas Wass (part meeting)  
Mr Battishill  
Mr Ridley  
Mr Cropper

Progress of Top Priority Papers

1. Financial Secretary and Mr Ridley would assist in revision of draft Treasury paper on Pay. Sir Douglas Wass would ensure with Sir John Hunt that more time was allowed for this crucial paper.
2. Sir Douglas Wass and Mr Ridley would produce a draft letter from the Chancellor to the Prime Minister on the Budget.
3. Minister of State (Lords) was completing a paper on taxation of short-term benefits.

Timing of Customs & Excise Duty Changes

4. The Chancellor invited comments on the Customs & Excise paper on timing; he was disposed to accept all the advice.

Budget Arithmetic

5. The starting point for presentation of the 1979 Budget needed to be clarified, ie the "base" from which policy changes are measured.



We did not want to be unnecessarily denounced for "savagery". Sir Douglas Wass pointed to Mr Healey's speech of 25th January as a source for the £8.5 billion commitment.

6. The Chancellor had consulted colleagues over the weekend and found general agreement on the broad lines of last Friday morning's meeting with officials. The dilemma emerged clearly in a choice between RPI and PSBR, given the commitments made on taxation and the limits to cutting expenditure.

7. The Chancellor pointed to problems at the bottom end of the income scale. He asked that further distribution tables should be drawn on a "full year" basis bearing in mind that the income tax reliefs applied to 12 months but the VAT increases to only nine months of the financial year.

8. Sir Douglas Wass undertook to find out the amount by which personal allowances would have to be raised to eliminate the minus signs in Table B of Tax Package 4. The Minister of State (Lords) proposed more generous personal allowance increases over and above those enacted in April: £70 for single persons, £120 for married. This would cost about £350 million more, in 1979/80, than the £30 and £50 included so far in the discussion. New gainer/loser distribution tables would be prepared reflecting these adjusted allowances, and the additional option of curtailing the width of the reduced rate band.

9. Ways of paying for higher personal allowance increases were discussed:

i. ACT surcharge (reference letter of 18th May 1979 from Secretary of State for Industry).

ii. Mr Battishill's suggestion of a narrower reduced rate band.



iii. Petroleum. Were we going far enough? A paper would be prepared to outline options.

iv. Deferment of capital allowances for individuals engaged in leasing - (Minister of State, Commons).

10. Sir Douglas Wass undertook that notes would be prepared on:-

i. ACT surcharge

ii. the reduced rate proposal

iii. the background to the oil industry (a longer-term project)

iv. personal leasing reliefs.

11. Possible compensation for indirect tax increases:-

i. Child Benefit

ii. Earnings rule for pensioners - a first step

12. Financial Secretary made the point that sale of assets, when made abroad, would not crowd out the appetite of capital markets for government stock.

#### Nationalised Industry Prices - RPI

13. Sir Douglas Wass would secure estimates for the RPI effects of nationalised industry price increases.

#### Health and School Meal Charges

14. Mr Ridley would check up on the Prime Minister's statements during the General Election campaign.



Miscellaneous

15. The Chancellor asked Sir Douglas Wass to arrange for a regular, brief comment on Gordon Pepper's Monthly Bulletins to be given to him.

16. The Chancellor asked if there was any argument against going ahead with the pre-EMS ecu swap. Sir Douglas Wass strongly recommended action; the Chancellor asked for a slot to be kept open in the Budget Speech.

17. Sir Douglas Wass reported that a full review of the mechanism for monetary management was in hand.

18. The Chancellor asked Mr Ridley to arrange for the "Shannon" material on housing, planning, etc, to be made available to the Treasury and to Mr Heseltine

A handwritten signature in black ink, appearing to be 'DK' with a flourish.

PETER CROPPER

21st May 1979

Circulation: Those present  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 22ND MAY

Present:

Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cropper

Matters Discussed

1. Special advisers.
2. Selection of items for Finance Bill.

Chancellor's Morning Meetings

Wednesday, 23 May: Ministers requested to be on call from 9.45 am  
Thursday, 24 May-Tuesday, 29 May inclusive: No meetings.  
Wednesday, 30 May: 9.00 am.

Full Budget Meeting

It is probable that a full meeting of Ministers and officials will be convened for Thursday afternoon, 24 May.

  
PETER CROPPER  
22 May 1979



Circulation: Those present  
Mr Ridley  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 30TH MAY

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Council of Ministers

1. Noted, that meeting of Council of Ministers coincided on 18th June with last day of Budget debate. Chancellor would wish to be in House of Commons; subject to checking agenda, it would seem right that the Chief Secretary would go to the Council meeting.

Budget Speeches

2. Mr Cropper would produce a list of main speakers in Budget debate for last four years. Considered desirable that Mr Howell should do one of the major speeches (Mr Cropper to advise Mr Portillo - Mr Howell's special adviser at the Department of Energy) (see below).

Inland Revenue Staffing

3. Minister of State (C) would seek to ensure that the exceptions asked for by the Inland Revenue (computer operators, London staff, etc) could be reconciled with the overall rules on cash limits.

Value Added Tax

4. Noted that there would be loud complaint about the incidence of a VAT increase on services provided on, for example, monthly



accounts eg garages, television rental. Minister of State (C) would look carefully and report.

Wilson Committee

5. Agreed that we did not favour suggestion that tax should be included in the remit of the Wilson Committee. Mr Ridley would inform Mr Ryder (No 10).

Political Presentation of the Budget

6. Messrs Cropper and Ridley had prepared a Check List on budget preparation. Ministers would meet at an early opportunity to discuss.

Blocking Order - Petrol

7. The idea should be held in reserve.

Budget Arithmetic

8. Minister of State (L) would obtain costing on alternative higher rate structure.

Disposals

9. Chief Secretary and Financial Secretary outlined progress of talks on asset disposals. At present this looked like:-

£200m	British Gas Corporation oilfields
£300m	BNOC assets (eg $\frac{3}{4}$ of BNOC holding in Ninian)
£700m	BP and Department of Industry.

Points for attention were:-



- i. problems of keeping assets within British control  
- eg the Ninian holding
- ii. the potential clash between BNOC asset disposal and  
BNOC privatisation
- iii. the entanglement of the Treasury's urgent 1979 Budget  
requirements with the Department of Energy's own review of  
BNOC
- iv. the fact that not all privatisation was helpful to the  
PSBR.

The crux of the matter was Mr Howell's agreement in principle that £500 million was to be obtained by disposals from his area by one way or another in 1979-80.

10. There must be another meeting with Department of Energy to finalise the entire plan for presentation to the Prime Minister.
11. There was a strong case for Mr Howell being **asked** to speak in the Budget debate.

PETER CROPPER

30th May 1979

Circulation: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

22  
9TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 31ST MAY

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Correction: 8th Meeting: 30th May. Paragraph 10 should read:

"There may have to be another meeting with Department of Energy to finalise the entire plan for presentation to the Prime Minister."

Red Book Publication of the Short-term Economic Forecast

1. There was a discussion of the forecasts, that of inflation in particular; the margins of error; whether it was essential that they should appear in the Red Book; and their implications for eg uprating of long-term social security benefits.
2. The Financial Secretary and Mr Ridley would ask the forecasting unit to re-examine the inflation forecast in the light of the NIESR forecast and to review their assumptions - especially wages and exchange rates.
3. Ministers would need to emphasise that the object of present policies was to get rid of suppressed inflation from the system and that the Chancellor would not be pursuing a monetary policy that would accommodate the higher prices consequent on the Budget. The NIF model concentrated on demand factors and the short term. Our policies were directed to the supply side and the long term.



4. The Chancellor asked Mr Ridley for a note outlining ways of presenting the arguments about the consequences of the direct/indirect tax switch for inflation and the money supply.

#### Exchange Control

5. The Chancellor requested that the term "Holiday Homes" should not be used. It was agreed that facilities should not be restricted to a single home.

#### National Savings

6. Chancellor would speak to Lord Soames about computer problems. DONE

#### Current Cost Accounting

7. It was suggested that we would probably have to impose (or threaten to impose) a fiscal solution on companies, which would force them into adoption of a sensible inflationary accounting solution.

#### Sam Brittan

8. The Chancellor asked Mr Ridley to speak to Mr Brittan correcting an impression given on page 25 of the Financial Times:

"The critics of economic management - a concept to which Sir Geoffrey Howe unfortunately committed himself to continuing in his talks with Mr Len Murray - ....."

What the Chancellor did convey (see minutes of TUC meeting 29th May 1979) was

- i. we cannot cure the economy by demand management



ii. we believe in the importance of the government getting the PSBR right

iii. we do believe that government has responsibility and can help to improve efficiency on the supply side.

Definition of the Budget

9. Petroleum Revenue Tax must be included as a budgetary item. Nationalised industry price increases should as far as proper and possible be kept separate from the Budget, at least insofar as they were occurring because past cash limit targets had been breached.

Council of Economic Advisers

10. It was decided that Sir Douglas Wass should be asked to speak to the Cabinet Office to ensure that matters were not advanced too precipitately.

*PK*

PETER CROPPER

31st May 1979



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 1ST JUNE

Present: Chancellor  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Lord Cockfield's Paper on Tax Policy Work

1. It was agreed that work on Capital Transfer Tax would proceed on the assumption of legislation in the Finance Bill 1980.
2. There were three further major areas in the tax policy field:-
  - i. Wide Ownership - including the proposals on tax incentives for senior management made to us by Mr Sainsbury in 1978.
  - ii. Small Business - the Small Firms Investment Corporation and other proposals.
  - iii. Tax Administration - possible unification of the investigatory powers of the two revenue collecting organisations.

It was felt that a small informal committee consisting of a silk, an accountant and a businessman might be set up to report on aspects of tax administration and enforcement. Mr Rees would be considering action.



### Quangos

3. Noted, that bodies such as Special Commissioners and the VAT Tribunal did not come within the classification of Quangos. Minister of State (Commons) was considering the scope for more economic administration in this area.

### Building Societies

4. Noted that, following the excellent and quickly prepared report on the Grays Building Society, action was needed to tighten up the rules of supervision of building societies, revise penalties etc. Action in this area would have to be carefully judged, bearing in mind the crucial part building societies would be playing in the sale of Local Authority housing. Financial Secretary would be pursuing the matter.

### Trade Figures and Exchange Control

5. There was discussion of the implications of possibly disturbing trade figures for the coming Budget:

- i. the PSBR forecast for 1979-80
- ii. the future exchange rate
- iii. hence, the inflation rate

6. The Chancellor emphasised the importance of developing the defensive arguments for proposed exchange control changes in the light of the likely weakness of the trade figures.



### Price Forecasts

7. Agreed there was a strong case for using 4th quarter 1978 to 4th quarter 1979 in the FSBR. Mr Ridley would pursue this further with Mr Unwin.

8. Reported (by AR) that the difference between Treasury model and NIESR price forecasts appeared on preliminary investigation to be mainly due to differing assumptions about the detail of the Budget and other related matters, which the NIESR clearly could and did not take fully into account.

### Trade Union Finances

9. Chancellor asked to be advised where responsibility lay for supervision of Trade Union finances, auditing, etc. Mr Cropper would investigate in consultation with Private Office.

### Economies in Administration

10. Treasury Ministers would keep a firm grip on all questions relating to computerisation of Revenue bodies and associated staffing questions.

Distribution: Those present  
Chief Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

  
PETER CROPPER

1st June 1979



## NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 4TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (Lords)  
Mr Ridley  
Mr Cropper

Tuesday, 5th June

1. No meeting.

Clegg

2. Financial Secretary and Mr Ridley would amend the latest draft of Government evidence to Clegg.

3. Mr Ridley would arrange liaison with CPRS and Mr Hoskyns.

Diamond Commission

4. Ministers took note of proposal by Secretary of State for Employment to disband the Commission. The Minister of State (Lords) would take responsibility for ensuring the continuation by other means of the further useful work which could be pursued on the issues dealt with by the Diamond Commission.

Opinion Research and Communication

5. Mr Cropper undertook to circulate a summary of the opinion survey "Public Attitudes to Industrial Relations".



Backbench Finance Committee

6. Decided that Chancellor would contact Mr William Clark to propose that Mr Cropper be invited to the regular weekly meeting in the House of Commons.

Council of Economic Advisers

7. Mr Ridley would prepare a minute exhibiting the options.

Small Firms Corporation Tax

8. Decided that we should not accept the suggestion of a £105,000 limit to the reduced rate, but stick at £100,000.

Amendment of Law Resolution

9. Resolution concerning Social Security Benefit Restriction to be discussed between Financial Secretary and Minister of State (Commons).

A handwritten signature in blue ink, appearing to be 'P. Cropper'.

PETER CROPPER

4th June 1979

Distribution: Those present  
Minister of State (Commons)  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

12TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 7TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Budget Presentation

1. Agreed not to publish distributional tables showing impact of direct and indirect tax changes on specimen income groups as Budget Press Releases. Financial Secretary and Mr Ridley to advise further on the question of a "cost of living index" in the light of Mr Byatt's submission.

Budget Evening

2. Minister of State (Commons) would do his best to call at Conservative Research Department on Budget evening.

Sir Derek Rayner's Review

3. Minister of State (Lords) to have responsibility for the Rayner exercise, without prejudice to the overall responsibilities of the Financial Secretary and the Minister of State (Commons) for the departments allocated to them under the "Allocation of Responsibilities". The Financial Secretary and Minister of State (Commons) would naturally wish to take a close interest in the Rayner exercise as it develops.



EEC Budget Council

4. Financial Secretary would normally attend.

Tax Commitments and Problem Areas

5. Mr Cropper's list of outstanding Pledges and the Customs minute on VAT problem areas of 6 June to be considered later. Chancellor asked for further attention to be given after the Budget to the problems raised by charities when the basic income tax rate is cut.

PETER CROPPER

7th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

11

PWP



Chancellor

Budget speaker

Yes. When J.W. & I spoke today we regarded J.W. as another U.S.? - since he speaks in U.S. style

The House's opinion here is that the Opposition have the right of choice on subjects for debate - and hence on shared speakers.

They apparently reserve their choice until after they have heard the Budget Statement.

Hence, whilst Wednesday looks quite safe (CST/FST), the later days will have to remain open.

W.P.

12

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14TH MEETING

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NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 11TH JUNE

Present: Chancellor  
Chief Secretary Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Taxation of Short-Term Benefits

1. In light of Lord Soames letter from CSD, it was suggested that a small ad hoc external advisory group might be able to help Ministers decide on aspects of computerisation and staffing for the task of taxing short-term benefits. Lord Cockfield would prepare proposals at an early date.

Programme for a Parliament

2. It would be desirable to have prepared shortly after the Budget a schedule showing what major issues might arise for or merit consideration and decision over the next six months or so. This would help the Chancellor and colleagues define their priorities and allocate their time. Mr Battishill would be asked to speak to the Chancellor about this after the Budget.

  
PETER CROPPER

11th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

CM<sup>33</sup>  
15TH MEETING  
2

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 13TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Forecasts

1. Guidance was urgently needed about use of estimates of the impact effect of the Budget forecasts and assumptions about price and unemployment trends in the longer term when preparing answers to PQs and in giving evidence to eg the Expenditure Committee. An early meeting would be arranged, and advice sought from Sir Douglas Wass and officials.

Treatment of the Christmas Bonus in the Social Security Bill

2. Doubt expressed on the wisdom of allowing the Christmas Bonus to be exempted from taxation, as provided for by the Social Security Bill. If, as Ministers would ideally wish, it was not to be a permanent payment it could not be coded in to the PAYE system and therefore there was a practical argument for leaving it tax free. But once it was made a regular payment, it should undoubtedly be taxed. To depart from that principle would create the inevitable damaging precedent. The Financial Secretary would do his best at the Legislation Committee to make these points clear.



Disposal of Assets

3. It was vital to press the other departments to co-operate willingly, since if legislation has to be effected then the disposals would probably not take place before the end of the current financial year.

A handwritten signature in black ink, appearing to be 'Peter Cropper'.

PETER CROPPER

13th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 14TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Finance Bill Arrangements

1. Chief Secretary would invite Mr Healey for early discussions about Finance Bill debate arrangements. He would invite to the meeting either FST or MST(C), the Finance Whip, his own Private Secretary and, perhaps, a representative from the Government Whip's Office.

2. At Second Reading and Committee Stage the Chief Secretary and Minister of State (Commons) would lead. The Chancellor would only take part if a special need arose; he would be more likely to take part at Report Stage. At Second Reading, PRT and DLT must be dealt with in detail.

Mr Ralph Howell

3. Mr Cropper would ask Mr Ian Stewart to speak to Mr Ralph Howell about the latter's Poverty Trap concern.



#### Reaction of Journalists

4. Mr Ridley summarised his experience of the reactions of the journalists who had visited No 11 since the Budget:

- i. Concern about the Prices - Wages - Strikes in the Winter - U-turn sequence. But their reasoning was rather a priori and no firm evidence was produced to suggest that this was likely.
- ii. Expenditure Cuts. Will they really stick? Will the PSBR end up at £10 billion plus?
- iii. Incentives. Everywhere sceptical, or at least seeking proof that they would have an important early effect.
- iv. Monetary. Is the 7%-11% target range too tough in light of price prospects?

Mr Ridley commented on the journalists' inability to adjust to a realistic assessment of the world economic prospect, in which output would probably not grow indefinitely at 3% pa, and long periods of stagnation were probable.

5. The Chancellor underlined importance of sticking to the thesis that:

- i. incentives would not work instantly
- ii. you cannot change attitudes overnight
- iii. they would work in due course.



### Money and Government Borrowing

6. The Chancellor attached great urgency to forming a view on:
  - i. The Pepper monetary base approach.
  - ii. The proper technique for handling of Government borrowing.

He asked for:

- a. work to be accelerated to generate the material needed for a "sighting shot" discussion;
  - b. opportunities to be created for him to hear the issues argued out thoroughly by protagonists of the different schools of thought.
7. Chancellor also asked for a meeting to be set up to discuss prospects for the short-term interest rate structure, with special reference to the early July Building Society deadline.

### Economic Forecasting

8. The Chancellor asked for an early discussion with Sir Douglas Wass and Sir Fred Atkinson of the problems of publishing or releasing the details of the short- and medium-term forecasts.

### Contentious Tax Issues

9. Mr Cropper would mark up the whole Budget debate and list the specific issues raised. He would also circulate Conservative Backbench Finance Committee points. There would need to be a formal discussion of these issues at least before Treasury Questions on Thursday, 21st June.



10. Items obviously needing inclusion:

Charities - Motability - Festivals  
Bloodstock (VAT)

PETER CROPPER

15th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson

15

PWP. 39



No other  
papers

No other

1. Mr Cropper

2. Mr <sup>Ans</sup> Samishin.

fixed for 9.30 am tomorrow.

J. Nelson.

197  
4



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 18TH JUNE

Present: Chancellor  
 Ministers of State, Commons and Lords  
 Mr Ridley  
 Mr Cropper

Mr Hoskyns Paper "Government Strategy"

1. Discussed with the Permanent Secretary.

Small Business

2. Mr Cropper was asked to find out whether Fiscal Policy Group had any modest Small Business proposals suitable for the Government to bring forward during the passage of the Finance Bill.

Treasury Questions

3. The Chancellor asked that a meeting should be arranged for preparatory work ahead of Treasury Questions on Thursday, 21st June.

Backbench Support

4. The Chancellor had asked Mr Battishill and Mr Cropper to liaise with Mr Ian Stewart in bringing together a group of mainly new entrants to the House of Commons, who might help the Chancellor with ideas for speeches and be active in support in the Chamber (Question Time etc). The Chancellor had in mind a weekly meeting in the House, which he would attend, at 5.30 pm on Tuesday.

Distribution: Those present  
 Chief Secretary  
 Financial Secretary  
 Mr Battishill  
 Sir Douglas Wass

Sir Anthony Rawlinson  
 Sir Lawrence Airey  
 Sir Kenneth Couzens  
 Sir Fred Atkinson

  
 PETER CROPPER  
 18th June 1979

CST ✓  
FST ✓  
MST ✓  
N ✓  
Cropper ✓  
Ridley ✓

SECRET



*John* X1 41  
to try to  
arrange Commons  
Ministers and  
me, I believe.  
Have we got  
from Brian Day  
to provisional  
allocation of  
Questions? attached  
orb. JN

17TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 18TH JUNE

Present: Chancellor  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Mr Hoskyns Paper "Government Strategy"

- 1. Discussed with the Permanent Secretary.

Small Business

- 2. Mr Cropper was asked to find out whether Fiscal Policy Group had any modest Small Business proposals suitable for the Government to bring forward during the passage of the Finance Bill.

Treasury Questions

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Distribution: Those present  
Chief Secretary  
Financial Secretary  
Mr Battishill  
Sir Douglas Wass

Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

*Peter Cropper*  
PETER CROPPER  
18th June 1979

21 JUNE 92



cc: PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (L)  
Mr. Davies  
Mr. Godfrey  
Mr. Dyer

MR GODDARD

PQS - FIRST ORDER THURSDAY 21 JUNE

The Chancellor has seen your minute of 8 June and is content with the preliminary allocations of questions.

AJN

A J NELSON

14 June 1979

Chancellor.

Content?

JL Nelson. 8/6.

→ MR NELSON

cc. PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (L)  
Mr Davies IDT  
Mr Godfrey IDT  
Mr Dyer

PARLIAMENTARY QUESTIONS

1st Order

Thursday 21st June

I attach a preliminary allocation of questions between the Chancellor of the Exchequer, the Chief Secretary and the Financial Secretary.

*J Goddard*

J GODDARD  
Parliamentary Section  
8th June 1979

WITH  
17

44

C/Ex

1 Mr Greville Janner (Leicester West): To ask Mr Chancellor of the Exchequer, what is his estimate of the likely rate of inflation for the next six months.

CST

2 Mr David Price (Eastleigh): To ask Mr Chancellor of the Exchequer, what was the increase in the national debt between April 1974 and April 1979; and what is the annual cost of servicing that debt.

FST

3 Mr Hal Miller (Bromsgrove and Redditch): To ask Mr Chancellor of the Exchequer, whether he will review the present arrangements under which nurses, health visitors, midwives, radiographers and others are assessed for tax on their mileage allowances which are reimbursement for expenses incurred in carrying out their duties: and if he will make a statement.

FST

4 Mr Michael Spicer (South Worcestershire): To ask Mr Chancellor of the Exchequer, whether the Government will reimburse individuals for interest charges incurred as a result of their having to take out loans whilst unable to cash national savings certificates because of industrial action.

C/Ex

WITH  
9 & 19

5 Mr J. W. Rooker (Birmingham, Perry Barr): To ask the Chancellor of the Exchequer, what is the latest rate of inflation as measured by the retail price index.

FST

6 Mr Michael Meacher (Oldham West): To ask the Chancellor of the Exchequer, what are the latest figures for the yield of corporation tax and income tax, respectively.

CST

7 Mr Peter Bottomley (Greenwich, Woolwich West): To ask Mr Chancellor of the Exchequer, what was the value in present day terms of the family allowance combined with the child tax allowance at the introduction of the family allowance; and how it compares with the present or proposed level of child benefit for a second child.

FST

8 Mr Jock Bruce-Gardyne (Knutsford): To ask Mr Chancellor of the Exchequer, what was the annualised rate of growth in the money supply, according to the M1 and M3 definitions, respectively, in the latest period of three months for which the figures are available; and whether this was in accord with the monetary policy of Her Majesty's Government.

C/Ex

WITH  
5 & 19

9 Mr Michael Neubert (Romford): To ask Mr Chancellor of the Exchequer, what is the latest annual rate of inflation.

CST

10 Mr Jim Marshall (Leicester South): To ask Mr Chancellor of the Exchequer, what is the latest estimate for the public sector borrowing requirement.

CST

11 Mr Dennis Canavan (West Stirlingshire): To ask Mr Chancellor of the Exchequer, whether he will now give details of the Government's policy on public expenditure.

FST

12 Mr Michael Latham (Melton): To ask Mr Chancellor of the Exchequer, whether he will make a statement on his proposals for development land tax.

CST

13 Mr Bob Cryer (Keighley): To ask Mr Chancellor of the Exchequer, what is his forecast of the public sector borrowing requirement for 1979-80.

C/Ex

14 Mr Richard Wainwright (Colne Valley): To ask Mr Chancellor of the Exchequer, what, at the present time, is the estimated annual rate of growth of gross domestic product.

CST

15 Mr Edwin Wainwright (Dearne Valley): To ask Mr Chancellor of the Exchequer, if he will give a list showing the United Kingdom exports per head of the population compared with those of other members of the European Economic Community Norway, Sweden, Austria, Switzerland and the United States of America, Japan, and Australia during each of the past four years.

FST

16 Mr George Robertson (Hamilton): To ask Mr Chancellor of the Exchequer, what was the total revenue in each of the last four fiscal years from: (a) capital gains tax, (b) capital transfer tax, and (c) estate duty, respectively.

C/Ex

WITH  
1

17 Mr David Winnick (Walsall North): To ask Mr Chancellor of the Exchequer, what is the estimated annual rate of inflation from May 1979 to the following May.

C/Ex

WITH  
21

18 Mr Dennis Skinner (Bolsover): To ask Mr Chancellor of the Exchequer, whether he is satisfied with the current rate of inflation; and if he will make a statement.

C/Ex

WITH  
5 & 9

19 Mr David Knox (Leek): To ask Mr Chancellor of the Exchequer, what is the annual rate of inflation.

FST

20 Mr Tam Dalyell (West Lothian): To ask Mr Chancellor of the Exchequer, what examination he is making of the taxation treatment of working widows.



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 19TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

EEC

1. The Chief Secretary reported <sup>on</sup> /the meeting of the Council of Ministers.

EMS

2. There was discussion of a minute which the Chancellor proposed to send to the Prime Minister, dealing with the timing of a UK decision.

Bank of England

3. It was agreed that the Chancellor should minute the Prime Minister with details of the Bank of England pay settlement.

Economic Effects of the Budget

4. There was preliminary discussion of Sir Douglas Wass' minute dealing with the Treasury response to PQs involving a forecast of the economic effects of the Budget.



Finance Bill Meeting

5. The Chancellor would be speaking to Mr Healey to initiate plans for a meeting at which parliamentary arrangements for taking the Finance Bill would be discussed.

Treasury Questions

6. The questions down for oral answer on Thursday afternoon would be reviewed after the Ministerial meeting on Wednesday, 9.30am-10.00 am.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

19th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 20TH JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Ridley  
Mr Cropper

Energy Matters

1. It was agreed that Ministers should meet shortly to draw together their priorities for the next few months, with a particular view to fiscal questions and, to a lesser but important extent, the financing problems of the major corporations. Amongst the issues to be considered were:-

1. a gas tax, which the Minister of State (C) was already investigating
2. the case for an early increase in duties on hydrocarbons, having particular regard to the precarious nature of the short-run energy prospect set out in the paper covered by Mr Hancock's minute to the Chancellor of 19th June
3. some of the deeper issues concerned with the relative prices of energy products (thermal equivalency) on which the Department of Energy would have strong views.

It was recognised that contacts should be established with the Department of Energy at an early stage, once Ministers had agreed on their position. Mr Ridley would speak to the Private Office about preparing an annotated agenda.



### Major Priorities for Ministerial Attention

2. The Chancellor asked for a meeting to discuss Ministers' and Advisers' suggestions and points made at the recent meeting on Mr Hoskyn's strategy paper, on the basis of an annotated agenda. Mr Cropper would arrange this with Private Office.

### Presentation of Treasury Policy

3. A propos the Junior Ministers' meeting, it was emphasised that the Chancellor's Budget speech had contained a very full exposition; that listeners had perhaps been more intent on the measures than the argument; and that no opportunity should be lost for commending the speech for thorough study. No other Cabinet Minister has presented such a thorough exposition.

### Treasury Questions

4. The Chancellor and Chief Secretary requested copies of the Denis Healey/Renee Short correspondence on the status of forecasts.

5. Ministers should place more emphasis on the dynamic argument about tax incentives in the budget, rather than the simple "77p gain" argument for the average family - which was not really the point. Marginal tax rates are the important thing in the incentive argument.

### Parliamentary Salaries

6. Ministers agreed that the Government should implement the Boyle recommendations in full, with staging if necessary. The Financial Secretary emphasised the value of agreement with the Official Opposition.



### Compensation to Investors in National Savings

7. The Financial Secretary reported on the Law Officers' opinion that

- i. Compensation was mandatory to those whose interest and capital payments had been delayed by computer strikes.
- ii. A deminimis rule could not be legally operated.
- iii. Compensation would be taxable.

The Financial Secretary would be stalling on questions. It would be borne in mind that although everybody agreed that Customs & Excise had no legal obligation to compensate businessmen who had had their repayments held up, some businessmen nonetheless considered they had a moral right to compensation.

### Pledges and Commitments

8. The Minister of State (C) pointed out that he would need to state a Government position during the Second Reading Finance Bill debate on Wednesday, 27th June, on certain commitments which had not been dealt with in the Budget. There was a brief discussion of certain of these:-

CGT/CTT: These would be included in Finance Bill 1980

Heritage: This would be covered in the course of the capital taxes review

Mortgage Interest Relief/Stamp Duty: Minister of State (C) was not happy that he could hold the line with a totally non-committal statement that these matters would be reviewed - in view of the precision with which the Party had committed itself.

20th June 1979

  
PETER CROPPER



Distribution:      Those present  
                         Mr Battishill  
                         Sir Douglas Wass  
                         Sir Anthony Rawlinson  
                         Sir Lawrence Airey  
                         Sir Kenneth Couzens  
                         Sir Fred Atkinson

SECRET



14 C  
2  
20TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 21ST JUNE

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cropper

Pledges and Commitments

1. The stance on pledges and commitments would be reviewed at the morning meeting at 9.00 am on Monday, 25th June.

Development Land Tax Office

2. PQs were expected from Michael Latham MP on the future of the DLT office. We would give a holding reply; DLT was included in the agenda for the Capital Tax review.

Cash Limits

3. The Chief Secretary advised that the Cash Limits statement should be published without delay. Agreed that it should emerge as a Written Answer on Monday or Tuesday - before the Second Reading of the Finance Bill.

Second Reading

4. The Chief Secretary was opening; Minister of State (Commons) winding up.



Double Tax Agreement

5. The Minister of State (Commons) asked the Chancellor to hold up his reply to Sir John Methven to synchronise with the Minister's speech on Second Reading.

Fiscal Policy

6. Ministers briefly discussed various fiscal issues:-

The Tax Base

Mortgage Relief

Institutional Tax Reliefs

Relationship of Income Tax/National Insurance Contribution

Corporation Tax

All these matters would be covered in the forthcoming review.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

21st June 1979

Distribution: Those present  
Mr Ridley  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

19

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19

SECRET



21ST MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 26TH JUNE 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cropper

Backbench Finance Committee

1. The Chancellor reported briefly on the 8.30 meeting with officers of backbench Finance Committee. A further meeting would be arranged by the Chief Secretary, through Mr Ian Stewart, in advance of Committee Stage, when detailed aspects of the Finance Bill would be discussed.

Index-Linked Public Sector Pensions

*U this Bill follows  
up the work of  
Exp. Comm. Am?*

2. Mr Cropper would circulate copies of a PQ answered by Mr Channon on the question of the Government Actuary's basis of computation (see attached). He would also circulate copies of a paper just received from Mr Chown on this subject.

Mortgage Interest Subsidy

3. Ministers expressed concern about the idea of subsidising mortgage interest to compensate for a high MLR.

IMF

4. The Financial Secretary reported a suggestion emanating from the IMF that the strength of sterling might be moderated by advancing the repayment of foreign debt.



### Disposal of Assets

5. The Chancellor asked the Financial Secretary to reconsider the BP warrant/option idea.

### Party Conference and Holidays

6. Mr Cropper would co-ordinate dates ready for the Chancellor's return.

### VAT Increase

7. Mr Cropper would circulate Ministers with a minute on the News of the World report.

### Commitments and Pledges

8. Agreement was reached on the answers that would be given during Finance Bill debates on subjects where the Party made, or implied, a firm commitment in Opposition. The need for a short Finance Bill would serve as a general answer to the question why nothing was being done on any specific subject this year. But the Minister of State (Commons) foresaw strong pressure on him to make firm commitments to action on eg the mortgage interest tax relief limit. It was agreed, however, that the Government should not go beyond a "firm commitment to review and consider before next year's Finance Bill" in these cases. In detail:

Blind Persons Allowance increase: make no commitment  
CGT, CTT: Full review by Finance Bill 1980  
Company Scholarships: Look without commitment  
Tax Overdue (Interest): Look with caution



Mortgage Interest: "We will look next year, taking into account what has been happening to prices (not house prices)."

Nothings: No action required

Overseas Partnerships: Avoid commitment

Permanent Health Insurance: - ditto -

Profit Sharing: We are looking

Retirement Annuities: We will look before Finance Bill 1980

Stamp Duty: As for Mortgage Interest

Pilots National Pension Scheme: We will give a commitment to rectify this minor anomaly

#### National Forum

9. Ministers did not consider it desirable for backbench MPs to be included.

#### Taxation of Short-Term Benefits

10. It was important that the outside expert or experts should be independent and not part of a departmental team investigating ways and means of taxing the short-term benefits.

#### Housing Bill

11. Uncertainty here to be resolved as to timing of legislation affecting rents.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

26th June 1979

Circulation: Those present  
 Mr Ridley  
 Mr Battishill  
 Sir Douglas Wass  
 Sir Anthony Rawlinson  
 Sir Lawrence Airey  
 Sir Kenneth Couzens  
 Sir Fred Atkinson



Question No 68, 20th June, Written Answer

Mr Tim Renton (Mid-Sussex): to ask the Minister for the Civil Service, whether he is satisfied that the inflation-proofing of Civil Service Pensions is taken fairly into account in the assessment of Civil Service salaries.

Differences in Pension Benefits, including provision for pension increase, are taken into account in comparing Civil Service salaries with outside rates by a deduction made on the advice of the Government Actuary, who is the Government's independent adviser in this field. This deduction represents the Government Actuary's own professional judgment and I have no reason to doubt it.


 M 57  
22ND MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 3RD JULY 1979

 Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Ministers of State, Commons and Lords  
 Messrs Cardona, Cropper, Ridley
Finance Bill

1. Responsibility for Clauses would be redistributed to leave Chief Secretary clear for PESC work next week. Agreed that a Report Stage could not possibly be dispensed with.

United States Visits

2. Chancellor was slightly uneasy about the impression which might be given of ~~the~~ Ministers visiting USA, in September. He recognised the importance of all the visits, but felt that priority for that particular month was

- (1) Minister of State (C) for Double Tax discussions
- (2) Minister of State (L) for Capital Tax enquiry
- (3) Financial Secretary for international monetary contacts.

He would consider the matter later in the week with Mr Battishill.

Tax Programme

3. Following the Friday meeting on the tax programme, the Chancellor would make a speech setting out our priorities.



Customs and Excise

4. Minister of State (Commons) reported an uneasy situation with Trade Unions representing Customs and Excise personnel.

MPs' Residences

5. Minister of State (Commons) reported on his consultations on subject of tax deductions for cost of MPs' London residences. Chancellor indicated acute urgency of matter.

Community Budget

6. Agreed that a debate was desirable on Community Budget; Probably a 10pm debate.

Private Members Motion

7. Financial Secretary reported on unfortunate selection by whips of a motion for this Friday on "The Challenge of North Sea Oil". Chancellor would take steps to ensure that this was answered by an energy Minister to relieve the load on Treasury Ministers.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

3rd July 1979

Circulation: Those present  
Mr Ridley  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

20



*M*

*Chancellor pwp  
x. Yes; and I have  
Commissioned a note for  
you.  
y. I have asked  
MST(c)'s office how this  
stands.*

23RD MEETING

*A.11*

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 5TH JULY 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Messrs Cropper, Ridley

*2*

*Not done:  
CIE R.I.R. proposals  
no bills, with  
proposals 7.1.80*

Tax Policy Programme

*x/ Did I ask for a revised  
profile of Lindley N. SEA  
7.1.80, in light of D.P. 6.1.79*

1. Minister of State (Commons) was asked to bring forward at the afternoon tax policy meeting a list of tax measures already envisaged for the 1980 Finance Bill, e.g. accelerated payments of PRT.

Disposals

2. Various aspects of oil asset disposals were discussed.

British Petroleum

3. The Chancellor hoped that the Minister of State (Commons) would be able to accompany him to lunch with Sir David Steel on Tuesday 10 July. The Minister of State (Commons) would try to rearrange the engagement he had planned for lunch that day.

Finance Bill Regulator Debate

4. Chief Secretary reported interesting points arising in the debate on the regulator:

(i) Mr Denzil Davies did not believe the British Government could do anything about the short run exchange rate.



(ii) The opposition front bench speakers agreed that the UK would be in considerable difficulties over its monetary policy if it had recently aimed to hold the exchange rate at a specific level, and speculators would have had a field day.

(iii) Conservative backbenchers were emphatic that they did not want to see government intervening in the Building Societies' determination of their lending rates. Three officers of the Finance Committee were among the speakers (W Clark, J Bruce-Gardyne, N Budgen).

#### Building Societies

5. The Chancellor had met Mr Williams, Director of the Building Societies' Association the night before. Mr Williams reported strong pressure from his members for a rise in the rate paid to depositors. He expressed strong distaste for Government intervention, subsidies etc.

#### Exchange Control

6. Ministers discussed the possibility of accelerating the timetable for Exchange Control relaxation.

A handwritten signature in blue ink, appearing to be 'P. Cropper'.

PETER CROPPER

6 July 1979

Circulation: Those present  
 Mr Ridley  
 Mr Battishill  
 Sir Douglas Wass  
 Sir Anthony Rawlinson  
 Sir Lawrence Airey  
 Sir Kenneth Couzens  
 Sir Fred Atkinson

CONFIDENTIAL



19

C

51

NOTE FOR THE RECORD

24TH MEETING

CHANCELLOR'S MORNING MEETING 10TH JULY 1979

2

Present: Chancellor  
Chief Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Defence Cash Limits

1. The Chief Secretary reported on negotiations with Secretary of State for Defence and it was agreed that, in the light of the Prime Minister's guidance, the Treasury would approve the statement which the Secretary of State was being pressed to make at question time this afternoon regarding adjustment to cash limits for VAT and Excise increases.

Parliamentary Catering

2. Noted that the overdraft on the House of Commons catering account was an unresolved issue which should be kept on the enquiry list.

Budget Income Tax Cuts

3. Noted that the first batch of Income Tax Cuts would take effect on the first pay day after 12th July and that Ministers would publicise them.

Unemployment and National Service

4. It was agreed that it would be appropriate for the CPRS to consider the question of reviving some form of National Service as a response to unemployment and the shortage of staff in certain hospitals and elsewhere.

Capital Tax Manpower

5. It was important to bear manpower considerations in mind when capital tax reforms were in preparation.

Economic Forecasts

6. It was agreed that any attempt to restrict the circulation of Treasury economic model forecasts was likely to backfire, especially in the light of new powers of Select Committees.



Briefing for Government Ministers on Pay Posture

7. Mr Cropper was asked to discover who was to be responsible for centralising the Ministerial briefing on pay posture following the CBI meeting the day before.

No decision yet taken - PJC

CBI Meeting with Prime Minister

8. Chancellor reported on a satisfactory meeting at which the CBI expressed

i) concern over high MLR and high and rising exchange rate

ii) concern that the forum idea should be kept alive.

Programme of Policy Work

9. Mr Ridley would meet each of the Treasury Ministers in turn to discuss priorities for policy work and policy decisions over the coming months.

The Next Budget

10. The Chancellor had asked for updated forecasts of oil revenue and a list of all the proposals that had been squeezed out of the first Budget by pressure of time. It was noted that the prepared proposals on capital taxation might cost  $\text{£}\frac{1}{2}$  billion in revenue.

Tax Policy Speech

11. The Chancellor saw opportunities for a major speech on future tax programmes either at Mr French's conference or at the Party Conference.

A handwritten signature in black ink, appearing to be 'PJC'.

PETER CROPPER

10 July 1979

Circulation: Those present  
 Financial Secretary  
 Mr Battishill  
 Sir Douglas Wass  
 Sir Anthony Rawlinson  
 Sir Lawrence Airey  
 Sir Kenneth Couzens  
 Sir Fred Atkinson



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13TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 8TH JUNE

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Ministers of State, Commons and Lords  
 Mr Ridley  
 Mr Cropper

Budget Debate

1. Private Office would be negotiating with the Office of the Leader of the House. Treasury Ministers inclined towards:-

Wednesday	Open	Chief Secretary
	Close	Financial Secretary
Thursday	Open	Mr Jenkin
	Close	Minister of State (Commons)
Monday	Open	Sir Keith Joseph
	Close	Chancellor

Budget Presentation

2. Scepticism about the FSBP forecasts had to be made absolutely clear in the Budget speeches, and briefing. It would equally be wrong to present a "ready-reckoner" type of analysis of the impact of the Budget on the RPI, employment, etc, in the Speech or briefing. Regardless of whether or not these impact effects were correctly analysed, to attribute specifically to the Budget the kinds of unpleasant economic developments which would inevitably result from the current state of the economy was methodologically wrong. For it would imply that it was possible to carry on with unchanged policies, which is obviously out of the question. Mr Ridley would inform the Central Unit that B4 in the Briefing would be left out.



3. Forecasts of unemployment had to be treated with particular scepticism. The Chancellor asked for Mr Bottrill's recent minute carrying quotations of forecasts included in past Budget speeches to be checked against outturn. Mr Ridley would be in touch with Mr Bottrill about this.

#### The Argument

4. The essential argument to convey, both in the Budget Speech and elsewhere, was that

- i. We face problems from inflation and rising money supply which make an immediate change of course unavoidable.
- ii. Any Government would have had to do unpleasant things in this Budget to get the situation under control. /Mr Ridley's reconstruction of what Mr Healey would have had to have done had made this point very clearly.<sup>7</sup> Any realistic policies introduced now would have an unpleasant short-term unemployment impact.
- iii. That unemployment would have been caused by the situation as a whole, not by the Budget.
- iv. The Government's policies will in the longer run put the economy, and employment in particular, on a better trend.

#### Budget Briefing

5. It was important to ensure that the argument in paragraph 4 was reflected in the Budget Briefing document, and in IDT's speaking notes for Ministers in other Departments. The Chancellor asked Mr Ridley to arrange this with Mr Bottrill and Mr Davies; and to



ensure that any further comments on the Budget Brief were conveyed to Mr Bottrill in time for the final revision being undertaken on Sunday, June 10th.

A handwritten signature in blue ink, appearing to be 'P. Cropper'.

PETER CROPPER

8th June 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Mr K E Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING - 13 JULY 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State (Commons and Lords)  
Messrs Ridley, Cropper, Cardona

The Chancellor reported on the Cabinet's discussions of Public Expenditure on July 12, and the following points were agreed:

ENVIRONMENTSubsidies to Council House Rents

2. It was imperative to keep up the pressure on this front. The DOE were now claiming that action to reduce higher rents by cutting subsidies was undesirable as it would lead either to a re-run of Clay Cross, or increases in rates rather than rents. To that end the Treasury should examine urgently, for deployment in discussions with DOE,

- a. the possibility of clawing back RSG, authority by authority, where rate increases exceeded a stipulated figure;
- b. the possibility of making the RSG less general in its impact and more of a cash limit for individual authorities;
- c. any other relevant financial sanctions.

In looking for possible solutions the need for quick legislation in some cases would have to be accepted.



### Improvement Grants

3. DOE's argument that public and private sector improvement grants should be raised greatly from their present low "Labour" levels would also need to be met with a considered case for their restriction.

### Specificity of LA cuts

4. The Chancellor re-emphasised the points he had made in discussion with Sir Anthony Rawlinson the previous day about the undue scope for Local Authorities to escape from precise implementation of specific economies agreed at the national level.

### FOREIGN AFFAIRS etc

5. The problems arising with expenditure on Defence, Foreign Affairs, the Aid Programme and the Community Budget were all closely related and needed to be looked at more systematically as a whole than was currently possible given that the Aid programme alone was subject to systematic review. In the next paper to Cabinet reporting on the outcome of the discussions about expenditure in 1980/81, it would be desirable to recommend that all the major programmes with a foreign policy orientation (ie those referred to earlier) should be looked at critically "en bloc".

### PUBLIC SECTOR PAY

6. The Chancellor asked for an early meeting with officials to consider the next steps to be taken in the light of the decision not to submit evidence to the Clegg Commission before the publication of the first references, and the Secretary of State for Industry's minute to the PM of July 11 expressing anxiety about developments in public sector pay generally.

*AR*

ADAM RIDLEY  
13 July 1979

DISTRIBUTION: Those present + Permanent Secretaries



26TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 18TH JULY 1979

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Ministers of State, Commons and Lords  
 Mr Cardona  
 Mr Cropper  
 Mr Ridley

Overseas Visits

1. The Chancellor had been invited to address a seminar at the Centre for Strategic Studies in Georgetown (Washington DC) on October 16th/17th. He would not be able to go due to a clash with the Mansion House dinner. The Financial Secretary would therefore go, and would combine this with his visit to Mr Ryrie. Mr Ryder at No 10 should be informed of this decision.

2. The Minister of State (Commons) would be visiting the USA in early September. The Minister of State (Lords) hoped to visit the USA between early September and mid-October and would give further thought to possible and suitable dates. Approval for these arrangements would be sought from the Prime Minister.

Treasury Questions

3. Ministers would try to meet to consider the main themes they wished to concentrate on during Question Time on Thursday, 19th July. This might have to be after the end of the Third Reading debate on the Finance Bill, in the Chancellor's room in the House of Commons. In future a proper discussion of question time would need to be arranged on a routine basis, and the necessary papers submitted in good time.



### Briefing - Treasury Questions and Finance Bill

4. Ministers felt that briefing folios for Question Time and briefs for Finance Bill Stages were reaching them much too late for proper thought and consideration to be given.

5. It was recognised that pressures had been severe since May 3rd, but it was felt very strongly that present arrangements were unsatisfactory. Officials would be asked to consider how briefing material of this type might be supplied to Ministers at least 48 hours in advance. It was recognised that House of Commons processes for the selection of amendments were a factor in creating last minute 'panics'. There might need to be discussion with House of Commons officials to put this right.

### Pay

6. The Financial Secretary reported that he was due to attend the Secretary of State for Industry's new Committee on Pay Publicity later in the day. It was felt that the Committee's origins and originally proposed membership were rather curious, and failed adequately to reflect Treasury interests. Since these were considerable in all matters relating to pay, the Financial Secretary would look for opportunities to assert the Department's concern with this area of policy.

### Television Documentaries

7. The Financial Secretary would inform Mr Davies about the background to the proposal for TV material to be prepared to reinforce press releases, which Anthony Jay/John Hoskyns had recently made. (The Financial Secretary's minute of 13th July.)



Stamp Duty - House Purchase

8. The Minister of State (Commons) in replying to Finance Bill Report Stage debate would:-

- i. lend no encouragement to the idea of special stamp duty relief for first-time house purchasers;
- ii. indicate that the Government was mindful of the need to review thresholds for house purchase stamp duty.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

18th July 1979

Distribution: Those Present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

NOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 27 JULY

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Mr Cardona  
Mr Cropper  
Mr Ridley

PUBLIC EXPENDITURE

## 1. Ministers discussed:

- the figures and targets to be inserted in the forthcoming PE White Paper and agreed that there was a strong case for deciding and publishing figures for the later years of the quinquennium in much less detail than for years 1 and 2;
- the need to focus particular attention for the later years on the major policy decisions which would in reality determine whether or not expenditure could be held at tolerable levels. Social Security, council house rents and improvement grants were important examples. Mr Ridley and Mr Cardona were asked to give particular thought to these and others which might fall in the same category;
- the importance of considering in the near future the development of the "stabilisation plan" idea. Mr Ridley was asked to check with Sir Douglas Wass's office to see whether the official submission on this proposal would be available shortly;
- the need to be able to make concrete proposals for improving control of local authority spending and rates, on the lines set out at the previous



meeting [See Morning Meeting Minutes No 25 of July 13, para 2 and 3, in particular para 2 a. to c.] It was hoped that proposals from Expenditure Divisions would be forthcoming shortly.

2. They discussed also the lessons of experience to date in handling PESC and Ministerial discussions, and considered what ways of improving things might be possible for the next stage when the pressures of the timetable might be a little less demanding. It was felt that ideally the Cabinet should not be presented at too early a stage with a large volume of relatively undigested material or be invited to consider in depth the bulk of the decisions that have to be made. Many of the decisions could, perhaps, be largely settled in bilateral discussions, leaving only the knottier problems for Cabinet consideration.

#### Heritage

3. Minister of State (Commons) explained the need to retain the initiative on heritage matters within the Treasury.

4. The Chancellor asked that officials should prepare a paper drawing together the taxation and expenditure aspects of Government involvement in the Heritage and the Arts, linking commitments and undecided issues. This should be ready for consideration by himself and the Ministers of State in early September, so that they could then decide how best to develop the Department and position vis-a-vis the relevant Cabinet colleagues.

AR.

ADAM RIDLEY  
27 July 1979



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32ND MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 3rd SEPTEMBER 1979

Present: Chancellor  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper

Party Conference

1. The Chancellor would speak on the Thursday afternoon. He would probably arrive in Blackpool on the Wednesday.

The 1980 Budget

2. A meeting would be arranged in the near future for a review of the budgetary background for 1980. It was understood from the Minister of State (Lords) that corporation tax could not be looked for as a substantial contributor of additional revenue in 1980-81.

Capital Taxes

3. The Minister of State (Lords) undertook to prepare a comprehensive summary of the capital tax position, bringing into consideration the stamp duties as well as those other taxes which he had already analysed.

4. A meeting to review the capital tax position would be called shortly after circulation of Lord Cockfield's summary review.

Extra Pecuniary Benefits

5. Note was taken of the hostile reaction from various quarters to the Consultative Document. At the same time, Ministers remained convinced that the principle of restricting fringe benefits was



right and that most of the bodies involved believed the same. After discussion, it was felt that simply to disallow such expenditure in company accounts (for tax purposes) would probably be too fundamental a step.

6. The draft letter for Sir John Methven was under preparation.

7. The Chancellor would include a passage on fringe benefits in his forthcoming Institute of Directors speech.

8. It was agreed that, in light of the initial reaction to the consultation document, it would not be possible to lay an Order in October having the effect of changing the scale rates for the financial year 1980-81. It was also agreed that it would be dangerous to propose valorisation of the scale rates if it also implied valorisation of the 'higher paid' threshold.

#### Talking Points on Britain's Economy

9. The future of this series (produced by the CoI) would be linked with a review of the Treasury Progress Reports by the Financial Secretary.

#### External Debt Management

10. The Financial Secretary referred to a proposal that had been made for borrowing on the New York market by HMG. The alternative was considered, whereby nationalised industries might be the borrowing agencies - by analogy with France. It was felt that the PAC might have to be convinced of the argument for paying a risk premium in order to avoid the appearance of the Government itself borrowing on the commercial market.

11. The Chief Secretary's view would be sought on his return.



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### Airport Charges

12. Mr Ridley's note had suggested using the price mechanism to encourage transfer of traffic from Heathrow to Gatwick. It was felt that the airlines would probably prefer to pay the Heathrow premium than to switch airports and it was considered that the Government would incur excessive odium for the attempt.

### Pension Funding

13. The Financial Secretary was convening a meeting within the Treasury to discuss the case for ceasing to fund nationalised industry pension funds and, in particular, local authority pension funds. The outcome of this meeting would be considered by Ministers before other government departments were brought in.

### Inflation Proof Pensions

14. The Chancellor would ask Mr Battishill to discover what progress had been made in bringing under review the assumptions made by the Government Actuary in assessing the appropriate relationships between public service pay rates and private sector pay rates. Reference was made to the Clegg Report mention of this aspect of public sector remuneration, and to Mr Chown's paper.

### Public Expenditure

15. Mr Cardona would prepare a short speech draft explaining the reasons why reduction of public expenditure was so important. (Reference to the Guardian, 29th August, "The Language of Priorities")

16. Mr Cardona would prepare a comment on the Manpower Services Commission document which had been circulated to MPs.

17. Messrs Ridley and Cardona would be seeing Sir Edward Rayner later in September; they would then advise the Chancellor on Mr Leslie Chapman's position.



Forecasting, Research, Advice

18. A compact meeting would be arranged for Ministers and officials to consider the major decisions needing to be taken on techniques of economic forecasting, organisation of research and deployment of advisory personnel.

Inner London Magistrates Courts

19. The Financial Secretary, on behalf of the Chief Secretary, would advise the Home Secretary against agreement to the terms which had been proposed.

Departmental Correspondence

20. The Minister of State (Commons) drew attention to the load involved in dealing with 1,500 letters in the month of July, and the continuing problem. Note was taken of a valuable assessment of the problem drawn together by the Private Secretaries. The Minister of State raised three questions:-

- i. is the load correctly distributed?
- ii. is the relationship between Treasury Ministers and MPs correct?
- iii. is correspondence being dealt with in the most efficient manner?

It was felt that:-

- a. the problem could not be fully solved by redistributing the load, although the Minister of State (Lords) offered to take a larger share of the correspondence pending a more fundamental review.



b. it would be difficult to give differential treatment, for example, to privy counsellors and to other MPs. But where MPs were simply forwarding constituency letters to the Chancellor as a matter of routine they should not, perhaps, be given personal replies. It would be useful to put the problem to the Chief Whip in the context of the need for administrative economy.

c. it might be possible for much of the tax correspondence to be dealt with by Customs and Excise and Inland Revenue on behalf of Ministers, who would only themselves become involved in the event that the departmental reply proved not satisfactory to the recipient.

A meeting should be called for discussion of the Private Secretaries' paper.

BNOC - Disposals

21. The Financial Secretary was asked to advise on the present situation vis-a-vis the Department for Energy.

Next Meeting

22. 9.00 a.m. Tuesday, 4th September.

PETER CROPPER

3rd September 1979

Distribution: Those present  
Chief Secretary  
Mr Ridley  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson



## NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 4TH SEPTEMBER 1979

Present: Chancellor  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Home Ownership

1. The minute of the Minister of State (Commons) "Fiscal Aspects of Home Ownership and Related Tax Matters" of 3rd September was to be passed to Mr Kitcatt for consideration in his review of housing finance, but was not to go outside the Treasury. The Financial Secretary had reservations about the need for further increases in the aggregate volume of national resources going to housing, while the Minister of State (Lords) emphasised the housing current account (subsidies) as a major cause of imbalance both in the national housing accounts in particular and in the PSBR in general.

2. The Financial Secretary reported that he was seeking to have a short time horizon set on the work of the DoE-chaired House Purchase Review Group on which he was the Treasury representative.

Computerisation of PAYE

3. Mr Ridley was authorised to continue his consultation with the computer expert whose preliminary advice had been recorded in Mr Ridley's minute of 13th August. The Chancellor would take steps to ensure that the Inland Revenue was taking all possible advice on the security aspects.



### Honours

4. The Chancellor asked Ministers and Advisers to make any recommendations to him as soon as possible. Certain names were discussed.

### Trade Union Accounts

5. In response to their communication, the Chancellor would write to the Secretaries of State for Employment and Trade agreeing that work should be put in hand to clarify the facts on problems and abuses in the field of trade union accounts, and to consider policy. He was convinced of the need to move very cautiously and to avoid any impression of intervening in the working of the law. Particular care had to be taken in appearing to tighten up disclosure requirements for unions at a time when it was proposed to relax Companies Act requirements for small firms.

6. It would be desirable for the Department of Employment to ensure that the certification office was not weakened by staff cuts, and for the Government to make itself ready with concrete proposals in case the issue of union accounts were brought out into the open by events.

### Medium-Term Plan

7. The Chancellor asked for quick comments on the redrafted Cabinet paper.

### E Committee

8. The agenda for the meeting on 11th September looked to be overloaded with Treasury papers. As the Financial Secretary was in any case due to be in Brussels that day it would be desirable for consideration of the paper on Disposals to be deferred.



Scott Quin

9. The offer of help was noted; Mr Scott Quin might be able to help on new backbench Parliamentary policy work.

Tax Advisers

10. The Chancellor reported on discussions with officials concerning the relationship with the Party's group of Tax Advisers.

- i. Sir William Pile was happy for the Inland Revenue to meet the Advisers at any time for discussion of specific issues.
- ii. It would be possible for one or more of the Advisers to be made members of the existing Tax Reform Committee.
- iii. Beyond that, informality would be the keynote of the relationship (see dinner invitation in paragraph 14).

Coinage

11. The Financial Secretary and Minister of State (commons) would convene a meeting to discuss the coinage proposals of the Treasury and the Mint. Ministers felt that a £1 coin was definitely needed, but were less certain about other changes.

Fringe Benefits

12. It was reported that the CBI would be quite happy with valorisation of the car scales, but were beginning to question whether cars ought to be selected for specially close attention.

13. It was agreed that the Government could not tackle miners' free coal, but care ought to be taken that in any discussion of miners' remuneration the grossed up value of free coal should be included.

CONFIDENTIAL



Hospitality

14. Mr Cropper would arrange meetings with Tax Advisers and European MPs. See circulated minute 5th September "European MPs etc" for details.

PETER CROPPER

5th September 1979

Distribution: Those present  
Chief Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

34TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 6TH SEPTEMBER 1979

Present: Chancellor  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Urban Development Corporation

1. It was accepted that, without clearer ideas on the size of the financial commitment involved, the Treasury could not support Mr Heseltine's proposal to go ahead immediately with the announcement of plans for a new category of Urban Development Corporation and to legislate.

BNOG

2. Asset realisation was further discussed.

Clegg Commission

3. Decisions on a strategy towards the Clegg Commission and public sector pay were becoming urgent in view of the imminence of 1979/80 pay claims from the public sector, and the paper to E Committee on 11th September on the first two reports by the Commission. The inter-departmental report which in effect constituted the paper to E would probably need to be supplemented by an oral statement from Treasury Ministers which would set out clearly the key issues which now needed to be addressed.

4. It was generally recognised that an independent analytical body was needed for establishing the facts on individual pay claims in



the public sector. But if so there needed, perhaps, to be a visible discontinuity between the Commission as set up by the last administration and that which would have to function under a Conservative administration.

#### Tax Relief on Life Insurance

5. In dealings with eg the Life Offices Association, it was important not to close options on tax reform. Certainly the Government had no present plans for broadening the tax base by eliminating the major "tax expenditures". But this was not to say that circumstances might not arise in which a move in this direction was clearly desirable on general grounds.

#### Diminishing the Burden of Ministerial Correspondence

6. A meeting would be held directly the Minister of State (Commons) returned from America, to discuss this problem. The Chancellor's Private Secretary would arrange.

#### Industry Act Grants

7. Since the proposal had first been made to raise from £5 million to £10 million the limit for grants under Section 8 of the Industry Act without Parliamentary approval, the Chancellor's view had hardened. He had recalled "The Right Approach" page 32, which stated "The powers of Parliamentary scrutiny over all government support for industry should be increased .....". Supporting his anxiety, the Minister of State (Commons) drew attention to remarks made in Opposition about grants by Mr Benn. Mr Ridley would draft a quick letter for the Chancellor to send to David Mitchell at the DoI to mark his change of view.



Treasury and Inland Revenue Publications

8. The proposed Inland Revenue press release on the latest issue of "Inland Revenue Statistics" discussing the tables on Wealth Distribution Statistics was noted, as was a Treasury Progress Report draft on International Tax Comparisons. It was agreed that these and similar drafts should always be shown to one of the Ministers of State or to Mr Cropper before publication and approved to Ministers. Mr Cropper would discuss with Mr Battishill the precise instructions to be given.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

10th September 1979

Distribution: Those present  
Chief Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson



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M, LAD. Economic  
Admin

CHANCELLOR

MORNING MEETINGS

If time permits, would it be possible to discuss the following points?

- i. BNOc privatisation ✓
- ii. PPB on public spending ✓
- iii. Future of the Economic Forum ✓
- iv. Quick/Slow Hoskyns campaigns ✓
- v. The PM and monetary matters.  
(I'm lunching Tim Lankester on Wednesday) ✓
- vi. Thursday's Cabinet on PE. ✓

All except (ii) remain relevant ...

AR

ADAM RIDLEY  
11 September 1979

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36TH MEETING  
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NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 12TH SEPTEMBER 1979

Present: Chancellor  
Chief Secretary  
Minister of State (Lords)  
Mr Cardona  
Mr Cropper  
Mr Ridley

Capital Taxation

1. Sir Douglas Wass' minute to the Chancellor of 11th September "Review of Capital Taxation" was noted. On the basis of a discussion which took place on the relative merits of CTT and CGT, the Minister of State (Lords) undertook to write a summary paper on capital tax options which he would circulate to officials in the Treasury as well as to Ministers. This note could form a focus round which officials could build their advice. The issues would need to be considered as a matter of urgency after the Party Conference so that the Inland Revenue's preparatory work could be properly directed and work on unrealistic options or assumptions be reduced to a minimum.

Prospective Tax Changes

2. Note was also taken of the report of the Minister of State (Commons) on the meeting which took place on 10th September with Treasury, Inland Revenue and Customs officials. Officials had undertaken to prepare a complete schedule of prospective tax changes by the end of the Party Conference. This would look at the programme for the whole Parliament and was not to be confused with the annual Budget starters list.

"BNOC and the People"

3. Ministers took note of Mr Cardona's minute of 10th September on this subject, summarising the British Columbia share distribution



precedent and how it might be applied to BNOC. It was agreed that full and constructive support should be given to this and to any other comparable proposals. The Chancellor asked Mr Cardona to discuss further with Mr Portillo (Special Adviser, Department of Energy) and, subject to the outcome of that discussion, to arrange that Treasury officials should examine and report on the British Columbia project in general and, as and when the Department of Energy developed their scheme, its applicability to BNOC.

#### PSBR

4. It was agreed that Mr Odling-Smee's paper on definition and use of the PSBR "The Public Sector Borrowing Requirement" circulated on 11th September was relevant to the forthcoming seminar on the Medium-Term Finance Plan. Mr Ridley would analyse the paper for Ministers and would consult Sir Fred Atkinson about arranging for it to be circulated with a view to obtaining early comments from certain outsiders, in particular those invited to the seminar.

#### British Leyland

5. Mr Ridley would give Ministers his view of the British Leyland problem on 12th September.

6. The lunacy of the British Leyland/Rolls Royce closure/engineering industry strike situation was lamented. It was felt that the only solution lay through a policy of strict realism in Government handling of the consequences of these actions. It was for consideration whether the time was perhaps ripe for the Chancellor to use his Conference Speech for bringing further into the open the folly of such suicidal blackmail, perhaps using a suitable analogy.

Wales

7. The expenditure proposals of the Secretary of State for Wales needed careful costing and checking by the Treasury, and steps would be taken to have consideration of his paper by Cabinet deferred.

"Assumptions for the Autumn Forecast"

8. Sir Douglas Wass' minute to the Chancellor of 11th September raised an important issue about the problems for policy and presentation to which possible incompatibility of projections for PSBR, public spending, interest rates and money supply might give rise. While accepting the proposed assumptions for the forecasting round, the Chancellor asked <sup>that</sup> Mr Ridley and Mr Battishill should arrange for early advice to be given about the figures which might emerge and what response should be considered to the difficulties which they might give rise to.

Cash Limits

9. Pursuant to item 9 of these minutes for 11th September, the Chief Secretary reported that officials were already preparing a philosophical paper on the question of the sanctity of the limits and what sanctions were applicable to breaches of cash limits. Further discussion should await that paper.

10. Mr Ridley was asked to discuss with Mr Battishill the possibility of simplifying the two draft papers for E Committee on "Cash Limits and Pay" and "Cash Limits and Nationalised Industries" and the possibility of delaying their consideration until a later meeting of E Committee.

11. Sir Anthony Rawlinson would be asked to chronicle Mr Heseltine's regular and implausible claims to be able to finance, out of savings in his department, a number of desirable



policy changes, eg abandonment of BP sale, relaxation of proposed cuts in RSG, expenditure on preparations for the Commonwealth Games, etc.

### Staff Cuts

12. The shrewd analysis by the Inland Revenue of the difference between the savings obtainable from cuts in staff numbers and the savings obtainable from cuts in staff costs was commended. It appeared that no other Department had analysed its economies with proper, let alone comparable, rigour. The Minister of State (Lords) felt that the CSD should be firmly charged with the responsibility for any practical problems that might arise out of their loose phrasing of instructions on this front, or from unrigorous costing by Departments.

12. The Chancellor asked for modest briefing on this important question before Cabinet on 13th September. Private Office would arrange in conjunction with the Minister of State (Lords).

Next Meeting: Thursday, 13th September, 5.15 pm.

A handwritten signature in black ink, appearing to be 'Peter Cropper'.

PETER CROPPER

12th September 1979

Distribution: Those present  
Financial Secretary  
Minister of State (Commons)  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson



2

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 18TH SEPTEMBER 1979

Present:                   Chancellor  
                              Chief Secretary  
                              Financial Secretary  
                              Minister of State (Lords)  
                              Mr Cardona  
                              Mr Cropper  
                              Mr Ridley

EEC Finance Council

1. The Chancellor reported on the meeting he had attended the day before.

Exchange Control

2. The Chancellor's Private Office wished to set up a meeting of Ministers and officials to discuss the important submission of 17th September "Dismantling Exchange Control", together with the paper on EMS.

Publications on EEC Topics

3. Two draft papers were available for publication under Government aegis and had been circulated to certain Treasury Ministers. One related to the British position in the EEC Budget, the other to CAP. Mr Peter Walker (letter to the Chancellor of 10th September) had come down against publication of the CAP paper in its existing form. Treasury Ministers were disposed to argue for publication of both these papers as a means of advancing public understanding. They felt, in view of Mr Walker's response, that



the Treasury should consider publishing the CAP paper under its own imprint - eg in Economic Trends or in the Economic Progress Report. Further discussion would take place, and the matter would have to be raised in OD(E).

#### Visits to USA

4. Minister of State (Lords) was going to USA on 31st October. Financial Secretary's visit would be in the week beginning 15th October.

#### Women's Taxation

5. It was envisaged that a consultative Green Paper would be issued in mid- or late-1980. (Copy of General Election Manifesto Briefing page 43 attached.)

#### Whitehall Luncheon Club

6. Mr Cardona would summarise for the Chancellor the paper outlining plans for reconstruction.

#### Party Political Broadcast

7. Mr Ridley would ensure that the PPB programme was kept in step with policy developments and general policy for publicity on public expenditure and pay.

#### CTT - Trusts

8. The Minister of State (Lords) drew attention to the apparent difficulty of dealing with the trust aspect of CTT reform in 1980, and spoke of the need for consultation with interested bodies.



Overpayment of Grants

10. It was noted that the Financial Secretary was seeking to discover how far the overpayment of grants by the Department of Energy had been due to disregard of the time limit and how far to other factors.

A handwritten signature in blue ink, appearing to be 'P.C.' or similar initials.

PETER CROPPER

19th September 1979

Distribution: Those present  
Minister of State (Commons)  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

TAXATION OF WOMEN

Q. What are you going to do about the taxation of women?

A. We recognise the strong feelings aroused by the present tax treatment of married women. However, it will be very difficult to find a system which will please everybody - married women at work, married women at home, single women, widows. We must not rush ahead without very thorough consultation.

A Party committee under the aegis of the Women's National Advisory Committee, chaired by Miss Shelagh Roberts, GLC, recently (January 1979) produced a discussion paper "Women and Tax". This recommended a uniform personal tax allowance for every adult person.

Sir Geoffrey Howe has spoken of the importance of fiscal neutrality between the working wife and the wife who stays at home to look after her family.

COMMITMENT

A Conservative government would wish to produce a consultative Green Paper on this subject, as a basis for action.

WITH  
18

- 21 Mr Robert Adley (Christchurch and Lymington): To ask Mr Chancellor of the Exchequer, how long he expects it to be before his policy has brought inflation under control; and if he will make a statement.
- 22 Mr John Hunt (Bromley, Ravensbourne): To ask Mr Chancellor of the Exchequer, what representations he has received from the Trades Union Congress in respect of his recent Budget proposals.
- 23 Mr Tim Sainsbury (Hove): To ask Mr Chancellor of the Exchequer, what are the current rates and thresholds for investment income surcharge for taxpayers aged over 65 years; and what were the equivalent figures in real terms in April 1973 and April 1978.
- 24 Miss Janet Fookes (Plymouth, Drake): To ask Mr Chancellor of the Exchequer, if he will exempt charitable organisations from paying value-added tax on the following items: hoists, overbed tables and patients' lockers, patient trolleys and stretchers, sari-chairs, wheelchairs and minibuses converted to carry handicapped persons.
- 25 Mr Dudley Smith (Warwick and Leamington): To ask Mr Chancellor of the Exchequer, whether he will now abolish, or modify substantially, the stamp duty imposed when the sale of a house takes place.
- 26 Mr John Evans (Newton): To ask Mr Chancellor of the Exchequer, how he intends to reduce the rate of inflation.
- 27 Sir Derek Walker-Smith (East Hertfordshire): To ask Mr Chancellor of the Exchequer, what is the present position regarding delayed payments under the premium bonds scheme; and if he will make a statement.
- 28 Mr Dudley Smith (Warwick and Leamington): To ask the Prime Minister, if she will state how many items in the Government's promised programme have so far been implemented.
- 29 Mr Ian Wrigglesworth (Teesside, Thornaby): To ask Mr Chancellor of the Exchequer, what is the latest estimate for the public sector borrowing requirement.
- 30 Mr Patrick Cormack (South West Staffordshire): To ask Mr Chancellor of the Exchequer, how many widows between the ages of 40 to 60 years were paying the equivalent in tax of: (a) 20 per cent., (b) 30 per cent. and (c) 40 per cent. and over of their widows' pensions on 5th April 1978.

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## NOTE FOR THE RECORD

CHANCELLOR'S MEETING 19TH SEPTEMBER 1979

Present: Chancellor  
Financial Secretary  
Minister of State (Lords)  
Mr Cardona  
Mr Cropper  
Mr Ridley

CONSERVATIVE PARLIAMENTARY FINANCE COMMITTEE

1. Mr Cropper would arrange a supper meeting at No 11 directly after the Party Conference.

TREASURY SELECT COMMITTEE

*Not 201 Done:  
PSC Remind*

2. The Chancellor would raise with Mr Stewart the question of Conservative names. It would be important for Treasury Ministers to make early contact with the nominees.

EXCHANGE RATE

3. Anxiety was expressed about a Money Programme on the advantages and disadvantages of a high exchange rate, involving a Minister in the Department of Trade. This was a Treasury subject.

DHSS AND ROLLS ROYCE

4. It was noted that a broadcast earlier in the day had reported that a DHSS office had already been set up at Rolls Royce.
5. The Chancellor would challenge Mr Duffy as to whether Trade Union membership cards would be withdrawn from engineering workers if they reported for work.

DEPARTMENT OF THE ENVIRONMENT

6. It was thought that the Treasury had lost more than it had gained in discussions with Mr Heseltine in H Committee on the previous day and at the morning's bilateral. We had succeeded in securing a reasonable compromise on interest rates for local authority mortgages in H Committee, but Mr Heseltine had sought to reopen the matter. The Chancellor decided we could make no further concession on this, and should stand firmly on the decision reached in H. No agreement had been reached on rents. Mr Heseltine had succeeded in appropriating a sum of £20m (rising to £30m), from the cut intended in the urban programme, for his Urban Development Corporations.



Distribution: Those present  
Chief Secretary  
Minister of State (C)  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson

GEORGE CARDONA  
19 September 1979

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C 97

M.Y:  
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NOTE FOR THE RECORD § 9.

SECRET



39TH MEETING

CHANCELLOR'S MORNING MEETING 24TH SEPTEMBER 1979

Present: Chancellor  
Chief Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Double Taxation Treaty (US)

1. The Minister of State (Commons), referring to his minute of 21st September to the Chancellor reporting on his visit to the US, reiterated his view that the Treaty should be ratified.
2. The Minister of State (Commons) would be seeing the UK and US press separately on the afternoon of 25th September. At the Chancellor's request he would be offering to see Sir John Methven and Mr Lord ahead of the press briefings.
3. The Minister of State (Commons) would write to Mr William Clark MP offering an early meeting on this subject with the Backbench Finance Committee (of which Mr Clark is chairman).

Falkland Islands

4. The Chancellor would respond with strong reservations to the request from the Secretary of State for Foreign & Commonwealth Affairs for authority to commence early discussions with representatives of the Argentinian Government.

Fiscal Council EEC - 16th October

5. The Minister of State (Commons) would attend.



Expenditure Economies

6. Note was taken of the Sunday Telegraph's report of the Avon County's successful experiment with changes in its school meals service which had both reduced costs and improved the quality of services. Every effort should be made to find, test and collect for public use analogous examples in the public spending area. Mr Cardona would pursue the Avon case and act as co-ordinator for others which might be found.

7. Note was also taken of a management consultant's investigation into the administration of Cheshire, paid for by the county's CBI branch. This had cost £7,500 and the CBI branch had paid for it on the basis that its members had a keen interest as ratepayers in the county's efficiency. See attached cutting from J Bruce-Gardyne, Sunday Telegraph 23 September.

8. The Chief Secretary would write to Sir John Methven suggesting that other CBI branches might follow. The subject would be placed on an E Committee agenda. Mr Cardona would provide a draft.

C.O.P.

9. Mr Ridley's report on discussions he had held concerning Inland Revenue computerisation was noted. The Minister of State (Lords) was asked to arrange with Mr Ridley, in consultation with Mr Battishill, for the essence of this report to be communicated to the Chairman of the Inland Revenue.

10. The most urgent problem, apart from consideration of the security angle, was that of pursuing open tendering arrangements for the hardware that was going to be required for COP. Official advice would be sought on this by the Minister of State (Lords) in the near future.



### Exchange Control Package and the BP Stock Sale

11. It was agreed that the stock sale must come after the exchange control package.

### Taxation of Short-term Benefits

12. The Minister of State (Lords) reported that he was to meet the leader of the chosen team of management consultants this week. He had formed the impression that the starting date for the DHSS computer was slipping, but had informed the Inland Revenue that 1982 was an unacceptably late starting date for the taxation of the benefits.

### Bilaterals

13. A propos item 6 in the minutes of the Ministerial Meeting of 19th September, the Chief Secretary commented that in the bilateral discussions with the Department of the Environment referred to in those minutes:-

- i. 95% of what was agreed was in accordance with Treasury policy.
- ii. Some items had been referred for further discussion.
- iii. The issue of rent increases was being referred to Cabinet, as was always foreseen.

The Chancellor suggested that, since these matters always ended up in bargaining, the Treasury might next time pitch its demands yet a little higher.



Inflation Proof Pensions

14. The Chancellor asked that Ministers and Advisers should work on this topic while he was away.

Next Meeting

15. The next ordinary Ministerial Meeting will be at 9.00 am on Wednesday, 3rd October.

A handwritten signature in black ink, appearing to be 'PK' with a flourish.

PETER CROPPER

24th September 1979

Distribution: Those present  
Financial Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson



NOTE FOR THE RECORD

MORNING MEETING 3RD OCTOBER 1979

Present: Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Capital Taxation

1. The Minister of State (Lords) stated that the Inland Revenue would need to know the major decisions by the end of November.

Fringe Benefits

2. The Financial Secretary emphasised the importance of being ready with figures for the grossed up value of miners' free coal in time for the start of negotiations on the NUM pay claim.

Post Office Finances

3. Mr Ridley outlined his reasons for feeling grave concern about the political aspects of the latest deficit figures. The sale of assets would only delay the reckoning even assuming there were assets available to sell. The latest experience made one wonder whether the cash limits system ought to embody a clearer distinction between capital and current accounts so that budgetary crises did not so easily result in compensating adjustments on the capital side. Just the same worries arose in the coal industry, where there was a danger that cash limits would only be met at the expense of capital programmes, eg Belvoir.

4. The point was also made that many of the nationalised industry boards were starved of talent. It seemed that the perennial problem



of identifying suitable recruits had still not been resolved, and that the industries' present state was rarely good enough to make it worthwhile for outsiders to come into public enterprise at the top level merely in order to serve the public interest.

#### Cash Limits

5. The Minister of State (Commons) reported on difficulties he was having in reconciling cash limit constraints at the Customs & Excise and the need to reduce staff as part of the Lord President's exercise with pressure that was emerging to set up Customs points at certain new points of entry.

6. The Minister of State (Lords) reported on the difficulty of participating in the Lord President's bilateral negotiations with other Departments when the proposals for the Chancellor's own Departments fell short of the 10% overall target.

PETER CROPPER

3rd October 1979

Distribution: Those present  
Chancellor  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



41ST MEETING

## NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 5TH OCTOBER 1979

## Present:

Chancellor ←  
 Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Mr Cardona  
 Mr Cropper  
 Mr Ridley

*Chancellor**Perhaps 1**could have  
a word from  
Community**X in Para 13.**JB*Belgrade IMF Conference

1. The Chancellor reported his impressions that:

- i. the old Commonwealth countries all have firm right-wing governments, which are seized by the crucial importance of controlling inflation, by contrast with the USA;
- ii. the International Institutions are also much more concerned now with control of inflation and by the fact that each government must make its own effort to this end, rather than relying on internationally managed lending to rescue them from all their problems;
- iii. inflation was nevertheless very deep-seated - as argued, for example, in Arthur Burns speech, given at the Belgrade Conference.

Bilaterals; Expenditure

2. The Chief Secretary reported that the bilateral negotiations were complete, and that roughly £2 billion of desired expenditure



cuts were likely to be referred to Cabinet for decisions.

3. Two separate reports were being prepared by Sir Lawrence Airey's staff for i) the Prime Minister and ii) the Cabinet, summarising the expenditure situation, describing the cash limit problem raised by the nationalised industries (Post Office, Steel, Coal, British Leyland) and setting the total perspective financial shortfall in the context of Income Tax, where a penny on the basic rate represented  $\text{£}\frac{1}{2}$  billion. It was agreed that the paper should refer to the cost of redundancy schemes, eg as set out in the Financial Secretary's minute to the Chancellor of October 1979, and to the danger of postponing capital programmes to meet current cash limit targets.

4. Mr Ridley reported Sir Donald MacDougall as saying that a number of nationalised industry Chairmen were very conscious of the dangers of putting too much weight on the cash limits system in its present form, in particular allowing current account weaknesses to be offset by cuts on capital account, particularly in investment.

#### Post Office

5. Grave concern was expressed about the impending financial problems of the Post Office; the Minister of State for Industry could be reminded what a serious threat they posed to the cash limit system.

#### Engineers Strike Settlement

6. It was important that the Trade Unions should not be able to claim this as a victory. The CBI should be asked to brief commentators on behalf of the Engineering Employers Federation; it was also possible that the Department of Employment could help.



### Ministers' Leave

7. Mr Hall would be asked to co-ordinate Ministers' Christmas leave through Private Secretaries.

### Political Liaison

8. The Cabinet had discussed Cabinet liaison and Ministers were reminded that:

- i) there should be constant liaison with backbench MPs;
- ii) party engagements should always be combined with official visits when travelling outside London;
- iii) the local MP should always be notified of an impending Ministerial visit well in advance;
- iv) Private Offices should never refuse radio or TV invitations extended to their Ministers without reference to them.

### Civil Service Pensions

9. The Financial Secretary reported on discussions with Mr Littler, who was revising his draft.

### Capital Taxation

10. The Minister of State (Lords) reported that there had been formal representations from about 40 institutions and 100 individuals. It was agreed that an arranged PQ should be put down as soon as the House of Commons returned, asking how many representations had been received in response to the invitation extended in his Budget speech by the Chancellor.



### Double Tax Treaty

11. The Minister of State (Commons) reported on his meeting with Mr Grylls and the representative of BAT. He had agreed that the American Double Tax Treaty order would not be tabled in Parliament until nearer Christmas, so that certain interested companies should be able to make their representation in the Californian Legislature, where a hearing was taking place on unitary taxation in late October. The Minister of State had agreed to speak on this subject at the first meeting of the Conservative Parliamentary Finance Committee.

### Investigation and Enforcement Powers

12. The Minister of State (Commons) reported on the major documents he had received from the two Revenue Departments and the meeting that would be taking place on Monday, 8th October.

### Revalorisation of Specific Duties

13. There was need for calculations covering a wider range of duties than that already provided by Mr Griffiths in his minute of 25th September covering tobacco and drink only. The objective would be to set out all the revenue options on the specific duties, and their RPI implications. Mr Battishill would commission this. He would also find out when the RPI Advisory Committee would be likely, and able, to review the weighting accorded to this group of commodities.

14. The Chancellor reported that he had agreed with Mr Fowler that the VED should be retained. The Minister of State (Lords) indicated that there were several economies to be derived, eg by i) cutting out the 4 month license and substituting a 6 month minimum, ii) limiting the right to refunds. It was



agreed that the Cabinet should be recommended to decide on retention of VED, and that that decision should be announced in the 1980 Budget.

Lord Presidents' Exercise

15. The Minister of State (Lords) reported the Lord Presidents' dissatisfaction with the outcome of the Exercise, expressed in aggregate terms. Although some departments have met their targets, many others have not. The failure of the Chancellor's group to meet the 10 per cent objective was weakening the Treasury's hand in negotiations on expenditure. However the Chancellor would continue to argue the need to avoid confusion between cutting functions and increasing efficiency.

A handwritten signature in dark ink, appearing to be 'P. Cropper'.

PETER CROPPER

8 October 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock.

42nd MEETING

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NOTE FOR THE RECORD

MORNING MEETING 9th OCTOBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Economic Prospect: Autumn 1979 Exercise

1. There was a general discussion of the Preliminary Report on the Exercise, in preparation for the meeting at 10am with Officials.

Christmas Cards

2. The Chancellor asked the Chief Secretary to pursue the subject of the HMSO monopoly with vigour. The Conservative Party was often denouncing local authorities for direct labour methods; this was no different.

Public Spending

3. The Chief Secretary reported on progress in preparing the Cabinet Paper.



Distribution: Those present  
Chancellor  
Mr Batishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



## NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 17TH OCTOBER 1979

Present:                   Chancellor  
                              Chief Secretary  
                              Ministers of State, Commons and Lords  
                              Mr Cardona  
                              Mr Cropper  
                              Mr Ridley

EEC

1. The Chancellor said that the Press had summarised quite fairly the outcome of the EEC Finance Council meeting on 15th October. It was a matter of persistence; our partners acknowledged our case but would be slow to concede practical help.

2. The Minister of State (Commons) reported on the meeting of the EEC Fiscal Committee. Not much progress was made; national interests were too powerful for conclusions to be reached at all soon on the duties on alcoholic drinks. No progress was made on racehorses.

Rate Support Grant

3. The Chancellor reported on a possible trade-off whereby, if the Chief Secretary's efforts to get the RSG contribution down from 61% to 59% failed, the cash limit percentage might be reduced from 14% to 13%. The Chancellor would be communicating with the Home Secretary.

Nationalised Industry Cash Limits

4. There was concern about the conclusions drawn in the Press from the letter of the Secretary of State for Industry giving guidance to



nationalised industry chairmen on the level of settlement for payrolls. It was reported that in the Treasury and in the Department of Employment there was a view that damage would best be contained by publishing the letter. Mr Ridley and Mr Cardona would discuss the matter with Mr Littler and others and advise as soon as possible.

Disclosure of Official Information Bill

5. The Minister of State (Lords) reported on a Cabinet Committee discussion about the treatment for the purposes of the Bill of information provided by nationalised industries. The Chancellor was to be briefed for meetings later in the day with the Home Secretary and certain other Ministers.

Revalorisation of Specific Duties

6. Mr Cropper would pursue with Mr Lovell the question of RPI weighting, arising out of the Customs & Excise note of 16th October.

PESC 1982-84

7. The Chief Secretary reported that a new formulation was being adopted which would fix the ceiling for council rents at 10% of average earnings.

Public Expenditure Debate 24th October

8. It was likely that the Chief Secretary and Financial Secretary would speak.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER  
17th October 1979

Distribution: Those present  
Financial Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey

Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 19TH OCTOBER 1979

Present: Chancellor  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Human Rights

1. The Chancellor drew attention to a correspondence concerning the Portuguese Government in which the previous British administration had supported the principle of fair compensation for sequestrated assets, at least when foreign owned.

The Government's Expenditure Plans 1980-81

2. Mr Ridley would ensure that briefing material for launch of the White Paper was in hand, in particular on the estimates of the tax implications of sticking to the previous administration's expenditure plans for 1980/81. He would contact Mr Cassell to explore further the issues and calculations referred to in his and Mr Cassell's minutes to the Chancellor of the previous two days.

3. The Minister of State (Lords) emphasised the importance of relating the size of the "cuts" to the size of the tax increases which were the only practical alternative.

Nationalised Industries

4. Acute concern was felt about the pending demands of the nationalised energy industries on the budget, and about the distorting effect on markets of underpricing their products.



5. The Minister of State (Lords) wondered again whether it would in the end be wisest for the Treasury to offer to take the odium for a gas price increase by applying it as a royalty tax on the supply of gas to the Gas Boards.

Taxation

6. It was vital that Ministers should (a) meet with each other, and (b) meet with officials to discuss Capital Tax Reform well ahead of the departure of the Minister of State (Lords) for America on 31st October. The joint meeting with officials had already been fixed for 9.00 am on Monday, 29th October.

7. Mr Cropper would prepare for the Minister of State (Lords) an arranged PQ asking the number of submissions received from the public on Capital Taxation.

A handwritten signature in dark ink, appearing to be 'JK' with a flourish.

PETER CROPPER

19th October 1979

Distribution: Those present  
Chief Secretary  
Financial Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
Sir William Pile  
Sir Douglas Lovelock



44TH MORNING MEETING

The Minister of State (Lords) has asked me to amend the record of this meeting at paragraphs 3 and 5. A replacement record is therefore attached.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

22nd October 1979

44TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 19th OCTOBER 1979

Present: Chancellor  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Human Rights

1. The Chancellor drew attention to a correspondence concerning the Portuguese Government in which the previous British administration had supported the principle of fair compensation for sequestrated assets, at least when foreign owned.

The Government's Expenditure Plans 1980-81

2. Mr Ridley would ensure that briefing material for launch of the White Paper was in hand, in particular on the estimates of the tax implications of sticking to the previous administration's expenditure plans for 1980/81. He would contact Mr Cassell to explore further the issues and calculations referred to in his and Mr Cassell's minutes to the Chancellor of the previous two days.

3. The Minister of State (Lords) emphasised the importance of relating the size of the "cuts" to the overall magnitude of the tax increases which were the only practical alternative, rather than attempt to specify a shopping list of illustrative increases.

Nationalised Industries

4. Acute concern was felt about the pending demands of the nationalised energy industries on the budget, and about the distorting effect on markets of underpricing their products.



5. The Minister of State (Lords) wondered again whether it might be more acceptable to public opinion if the gas price increase were presented in a way in which it was due to taxation, which would go into the Exchequer and be available for tax relief, rather than a simple price increase which would merely swell the already excessive profits of the gas industry.

#### Taxation

6. It was vital that Ministers should (a) meet with each other, and (b) meet with officials to discuss Capital Tax Reform well ahead of the departure of the Minister of State (Lords) for America on 31st October. The joint meeting with officials had already been fixed for 9.00 am on Monday, 29th October.

7. Mr Cropper would prepare for the Minister of State (Lords) an arranged PQ asking the number of submissions received from the public on Capital Taxation.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

19th October 1979

Distribution: Those present  
Chief Secretary  
Financial Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
Sir William Pile  
Sir Douglas Lovelock



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46TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 24TH OCTOBER 1979

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Ministers of State, Commons and Lords  
 Mr Cardona  
 Mr Cropper  
 Mr Ridley

Exchange Control

1. The Minister of State (Lords) reported that the announcement was well received in his House.

Public Expenditure White Paper

2. Ministers inclined towards the view that the Chief Secretary ought to make a Statement in the House of Commons on the White Paper.
3. The Chancellor asked for suggested words for use in place of "stabilisation". The words "freeze" and "pause" were discussed. Mr Cropper was asked to discuss with IDT.
4. Ministers felt that, on the basis of the work reported in Mr Cassell's minute to Mr Ridley of 23rd October, there probably should be a sentence in the White Paper equating the size of the now aborted spending increases planned by the former administration with a precise number of pence on the basic rate of income tax.
5. The Chancellor asked Mr Ridley to:
- i. ascertain whether there was still time to insert a sentence in the White Paper



- ii. if so, to draft
- iii. look up precedents, in particular the 1976 Public Expenditure White Paper.

#### Potential Names for Public Appointments

6. The Chancellor reminded Ministers of Sir Anthony Royle's work on appointments in Opposition. The Chancellor reported he was seeing the CSD official responsible for the official list of such names.

#### Immigration

7. The Chancellor understood that Cabinet was going to discuss the Home Office draft White Paper on Immigration. He asked Mr Cardona to continue studying the complexities of the matter.

#### Short-Term Forecast

8. The Chancellor asked whether Ministers felt the Short-Term Forecast should be circulated outside the Treasury. Mr Ridley pointed out that this raised almost the same question as that of how and when to deal with the Bray amendment. This was now in any case an urgent matter on which Sir Douglas Wass would be advising and seeking decisions shortly.

#### Capital Taxes

9. It was felt that the discussion of capital taxation would absorb most of the two hour meeting with revenue departments on Monday, 29th October; that discussion of the handling of the Finance Bill ("Addington Society lecture") would have to be postponed; but that there would have to be a discussion of the Review of Prospective Tax Changes set out in the Minister of State (Commons)' minute.



10. It was likely that Ministers would need an opportunity to discuss among themselves the progress made at this meeting before the departure for America of the Minister of State (Lords) on Wednesday, 31st October.

Post Office Finance

11. Mr Ridley drew attention to a letter from the Secretary of State for Industry expressing attitudes on finance of the Post Office which would require close Treasury examination.

A handwritten signature in black ink, appearing to be 'Peter Cropper', written over a circular stamp.

PETER CROPPER

24th October 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
Sir William Pile  
Sir Douglas Lovelock

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47TH MEETING

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NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 30TH OCTOBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Ministers of State, Commons and Lords  
Mr Cardona  
Mr Cropper  
Mr Ridley

Capital Tax Meeting

1. Due to a misunderstanding, the Financial Secretary had failed to receive an invitation to the joint meeting with the Revenue Departments on 29th October. Private Offices please note.

Forecasting

2. Ministers discussed aspects of the questions which would be arising in the afternoon meeting with officials, eg form of publication of Bray amendment forecasts, exchange rate assumptions, selection of quarters for comparison.

Unemployment

3. It was agreed that the 1.65 million forecast being used by the Government Actuary was appropriate.

4. There was discussion of the case for and against a two-sided 1/4% increase in National Insurance contribution rates. The case against was based on concern about company liquidity. The case for was based on the fact that public perception of the employee's NI contribution was not the same as perception of income tax rates; there might thus be an argument for a small partial switch from income tax to NI.



5. There was possibly a case for a cut in the employer's contribution to the Redundancy Fund as compensation for an increase in the employer's NI contribution.

Statutory Indexation of Supplementary Benefits

6. The Chief Secretary reported on the proposal of the Secretary of State for Social Services to include in the forthcoming Social Security Bill a statutory indexation of Supplementary Benefit rates.

7. Ministers were very unhappy about this and agreed to oppose it, fearing inter alia that Child Benefit indexation could follow hard behind.

North Sea Licensing

8. Ministers decided to hold, at a suitable moment in the near future, an internal Treasury meeting to discuss the Department's position on oil depletion.

A handwritten signature in black ink, appearing to be 'Peter Cropper', written over the typed name.

PETER CROPPER

30th October 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
Sir William Pile  
Sir Douglas Lovelock

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P.C. ←



49TH MEETING

P.C. ←  
Wages  
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Committee?  
~~Committee~~  
Low Day unit

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 5TH NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Mr Cardona  
Mr Cropper  
Mr Ridley

Chief Secretary

1. The Chancellor proposed the health of Mr and Mrs Biffen.

The Alliance of Small Firms

2. The Chancellor asked Mr Cropper to keep a watch on the Alliance publication "Counterattack", which had published an account of Inland Revenue in depth investigation methods which, if true, amounted to a very serious accusation. Mr Cropper would draw this to the notice of the Inland Revenue.

Treasury Officials on Company Boards

3. The Delta Metal Company had invited the Treasury to place one of its officials on the board of one of its subsidiary companies. There were obvious advantages in terms of widening the experience of officials, and it was understood that the Department of Industry already had representatives in this capacity. However, Treasury Ministers were worried whether officials would not find themselves placed in an invidious position when, for example, discretionary grants were under consideration. There might also be scope for complaint by competitors.

4. The Chancellor would discuss the matter with Sir Douglas Wass, who might subsequently raise it with Sir John Methven.



Milk Co-responsibility Levy

5. The Chancellor was very concerned about the interaction of this proposed levy with the own-resources VAT contribution and was worried about the risk of "de-budgetisation" of Community expenditure. He felt that agriculture was a loose end in the settlement of public expenditure and had the impression that the Treasury was the only gamekeeper looking after the general interest.

6. The Chancellor asked for a precise and urgent analysis of the whole of the argument underlying the correspondence between the Chief Secretary and the Minister of Agriculture, Fisheries and Food on the subject of co-responsibility levy. The Chief Secretary undertook to cover the subject of agricultural capital grants and the Financial Secretary would cover the co-responsibility levy from an EEC budgetary point of view.

OECD Request for Forecast Material

7. It was agreed that the Treasury could not supply the OECD with the detailed information they were requesting on the latest economic forecasts.

8. Arising out of discussion, the Chancellor indicated that he would be grateful for details of the UK financial contribution to international financial organisations such as OECD, IMF, UN Economic Commission and FAO.

Medium-Term Financial Plan

9. The Chancellor reported that he had been asked to review with the Prime Minister the question of Industry Act forecasts and the question of a wider discussion with non-economic colleagues on the medium-term economic plan.

10. The Chancellor asked for an early meeting to be arranged for discussion of next year's PSBR target, the Medium-term Financial Plan, etc. Decisions were urgent.



BNOG

11. Mr Cardona would prepare a minute for the Chancellor to send to the Secretary of State for Energy encouraging him to proceed with consideration of the British Columbia model for privatisation.

A handwritten signature in black ink, appearing to be 'P. Cropper'.

PETER CROPPER

5th November 1979

Distribution: Those present  
Ministers of State, Commons and Lords  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
  
Sir William Pile  
Sir Douglas Lovelock

50TH MEETING

## NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 7TH NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State, Commons  
Mr Ridley  
Mr Cropper  
Mr Cardona

A handwritten pink squiggle or mark, possibly a signature or initials, located to the right of the list of attendees.

Demonetisation of 6d

1. It would be premature to announce this at Questions on 8th November. The decision should be cleared with No 10 first. In the meantime the position should be that demonetisation of the 6d was under review.

Medium-Term Financial Plan

2. The Financial Secretary suggested publishing the Plan - assuming there was one - in a separate White Paper, on the same day as the White Paper on Expenditure in the later years was published.

Cash limits and pay

3. Mr Cropper was asking for further briefing for Question time.

A handwritten signature in black ink, appearing to be 'GC' or similar initials, located above the typed name of George Cardona.

GEORGE CARDONA

7 November 1979

Corrections to Minutes of 48th Morning Meeting (2nd November)

1. Paragraph 2: the intention had been to separate City and

business journalists from Lobby correspondents.

2. Paragraph 16: the last sentence should be replaced by "There was a possibility - though no guarantee - that some £40-50m could be raised through ICL."

- Distribution: Those present  
 Minister of State, Lords  
 Mr Battishill  
 Sir Douglas Wass  
 Sir Lawrence Airey  
 Sir Fred Atkinson  
 Sir Kenneth Couzens  
 Sir Anthony Rawlinson  
 Sir William Pile  
 Sir Douglas Lovelock



51ST MEETING

NOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 13TH NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Cropper  
Mr Cardona  
Mr Ridley

Minister of State (Lords) in USA

1. The Minister of State reported on his visit to the USA. The British Government's economic policies had made a favourable impression.

Bray forecast

2. It was thought that the forecast would have to be cleared by 15th November if publication was to be assured by 20th November; but slippage - perhaps until after the Dublin meeting - was permissible.

Public Expenditure

3. Advice would be sought from Sir Anthony Rawlinson on what would be the feasible period in which to reopen decisions taken for 1980/81, should this prove necessary having regard to the need to fix cash limits and make other decisions which demanded firm plans in the early New Year.

4. It still seemed essential that the second volume of the Expenditure White Paper should be published in mid-January, although



it was recognised that there might be problems in publication shortly before/<sup>a</sup>possible decision to **change the plans further.**

5. Mr Jock Bruce-Gardyne appeared to be claiming that public expenditure was 4% higher this year than last. Mr Ridley would investigate what lay behind Mr Bruce-Gardyne's thoughts, and suggest an appropriate response.

NEDC meeting on 5th December and economic seminars with selected colleagues and Cabinet.

6. Considerable preparation would be required for these meetings. A submission was on its way, and would need early consideration.

Briefing for Cabinet and Conservative Finance Committee

7. Arrangements would be made by Mr Davies to provide compact briefs for the Cabinet, and for distribution by the Paymaster-General channels, on Thursday. Messrs Ridley and Cardona would arrange briefing for the backbench Finance Committee.

8. The Prime Minister wanted extensive briefing on Wednesday evening, which could no doubt be included in Mr Bottrill's normal submission.

EEC Budget

9. It was concluded on balance that a debate in the Commons would be useful before Dublin.

10. The Financial Secretary wanted collective guidance from OD(E) or Cabinet on the line he should take in the Budget Council on 23rd November. The Financial Secretary would pursue the issue bearing in mind the possible need to raise the issue at Cabinet on November 16th.



### Housing

11. There should be a further discussion at a **Morning** Meeting to follow-up the hurried meeting of November 9th. Messrs Cropper and Cardona would prepare an agenda.

### BBC External Services

12. In response to a request from the Prime Minister, the Chancellor's Private Office would procure an advance draft of the speech to be made by Mr Blaker in the Commons.

13. The tone of the Conservative Research Department brief had not been what one might have wished. Messrs Ridley and Cardona would look into this.

### Pneumoconiosis and Slate quarrying

14. The Chief Secretary would minute the Prime Minister about the complications over repercussions on parallel demands from the NCB, and possibly raise the matter in Cabinet.

A handwritten signature in dark ink, appearing to be 'G. Cardona'.

GEORGE CARDONA

13th November 1979

Distribution:        Those present.  
                      Mr Battishill  
                      Sir Douglas Wass  
                      Sir Lawrence Airey  
                      Sir Fred Alkinson  
                      Sir Kenneth Couzens  
                      Sir Anthony Rawlinson  
                      Sir William Pile  
                      Sir Douglas Lovelock



52ND MEETING

NOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 14TH NOVEMBER 1979

Present: Chancellor  
Financial Secretary  
Minsiter of State (C)  
Minister of State (L)  
Mr Cropper  
Mr Cardona  
Mr Ridley

Pneumoconiosis

1. The Prime Minister had agreed that the Chief Secretary could reopen the decision taken by H Committee on October 30th, where it should be properly discussed before it was put to Cabinet.

Public Expenditure White Paper: Sir Anthony Rawlinson's minute of November 13th

2. The Financial Secretary suggested that one option - a truncated variant of option 2 in Sir Anthony Rawlinson's minute - was to publish figures for 1980-81, in greater detail, than in Cmnd 7746, also publish a fair range of figures for 1981-82, but to give nothing on future years. Against this it was argued that market confidence required at least global figures and programme totals for the later years. The Chancellor concluded that the Financial Secretary's option should be considered along with the other options suggested.

Bray forecast

3. Mr Ridley pointed out that if any further variant was to be produced, decisions should be taken by the end of the week.

4. The Chancellor summed up the discussion by saying that the timetable for the forecasts should definitely be slowed down.



The treatment of the PSBR forecasts in the draft submitted by Mr Shepherd on November 9th was too sparse, and further thought was needed as to how it might be amplified and strengthened. The Financial Secretary and Mr Ridley expressed anxieties about the depth of the recession projected in the draft, and its impact on the PSBR, and pointed to the risk that the markets would not appreciate properly that much of the deterioration in the PSBR was due to the fall in output. It was agreed that there was a very strong case for a forecast which **presented** a less extreme picture on recession.

#### Medium-term financial plan

5. It was pointed out that, if the MTFP was not to be included in the public spending White Paper, there was a case for postponing publication of the Plan till the Budget - but no later.

#### National Insurance Fund

6. The Chancellor commented that it was best to choose the higher salary limit (Mr Kemp's minute of 12th November). He also asked that some thought should be given in due course to how the Fund's massive surplus might be treated in future years, in the context of our programme of tax reductions and the need to bring down the PSBR.

#### Mr Bruce-Gardyne

7. Mr Ridley would continue to pursue with Sir Anthony Rawlinson Mr Bruce-Gardyne's anxiety that even after the Budget cuts public expenditure in 1979/80 was projected to increase by little less over 1978/79 than in Labour's last White Paper [4% as against 4.5% on the total before shortfall, asset sales and NI borrowing].

A handwritten signature in dark ink, appearing to be 'G.C.' or similar initials.

14th November 1979

GEORGE CARDONA



SECRET

Distribution: Those present  
Chief Secretary  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
  
Sir William Pile  
  
Sir Douglas Lovelock

- 3 -

SECRET



53RD MEETING

11

NOTE FOR THE RECORD

Chancellor  
 A meeting on X has been arranged  
 for 9.0 am on Monday next.

CHANCELLOR'S MORNING MEETING 21ST NOVEMBER 1979

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Mr Cropper  
 Mr Cardona  
 Mr Ridley

2

EEC Budget Debate in House of Commons

1. There would be a meeting later in the day between the Chancellor, FST and MST(C) to agree the line to take in the debate on Thursday 22 November.
2. The Chancellor would see whether it was possible to do a deal with Mr Shore on the wording of the motion for debate, in order to ensure a unanimous House before the Dublin summit.

BNOG

3. The Chief Secretary would in due course call a meeting to agree a Treasury line on the options for privatisation.

Debate on Public Expenditure White Paper

4. The Chancellor would telephone Mr St John-Stevas in the course of the day to try to persuade him to wrap up the debate on the Public Expenditure White Paper in next week's economic debate.



Mr Unwin's note of 20 November on the Economic Outlook

5. The Chancellor would aim to send the draft to the PM today.

Industry Act Forecast

6. The FST's suggestion for Industry Act Forecasts to be accompanied by a much shorter text (minute of 20 November to PPS) should be looked at in good time before drafting started for the next forecast, in the FSBR.

Development Land Tax

7. The Chancellor confirmed that the Revenue could talk to the Department of the Environment about the options for DLT, provided that all our options were kept open.

A handwritten signature in dark ink, appearing to be 'GC' or similar initials.

GEORGE CARDONA

21 November 1979

Distribution      Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Lawrence Airey  
Sir Fred Atkinson  
Sir Kenneth Couzens  
Sir Anthony Rawlinson  
Sir William Pile  
Sir Douglas Lovelock



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 23RD NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Minister of State C  
Minister of State L  
Mr Ridley  
Mr Cropper  
Mr Cardona

BL

1. Mr Ridley would pursue the issues raised in Mr Hoskyns' letter to the Chancellor. The intention was for the Chancellor to minute the Prime Minister and Sir Keith Joseph by the end of the day.

Motion for Next Week's Economic Debate

2. Mr Cardona would endeavour to discover who would speak in the debate, and would draft possible motions to submit to the Chief Secretary.

Discussion of Public Expenditure

3. The Chief Secretary would ensure that Sir Anthony Rawlinson's draft paper (with submission of 20 November) would be reviewed and cleared with No 10. AREA 1.48 Jan 17, 1980

✓  
Public Expenditure White Paper

4. Mr Ridley's minute of 21 November, suggesting that the draft Part I of the White Paper on the later years should include in

its introduction a message about the past record of over-promising and under-achieving, was endorsed.

NIESR

5. The Chancellor asked colleagues to comment on Mr Byatt's minute of 19 November on NIESR funding.

Post Office Finances

6. Mr Ridley argued that the latest problems over the Post Office's cash limit represented a very important test case of the system of cash limits as operated on the nationalised industries, and that they merited a very carefully considered response. He would submit his views to the Chief Secretary later in the day.



GEORGE CARDONA  
23 November 1979

Distribution: Those present  
Financial Secretary  
Sir D Wass  
Sir L Airey  
Sir F Atkinson  
Sir K Counzens  
Sir A Rawlinson  
Sir William Pile  
Sir Douglas Lovelock

Correction to Minute of 53rd Meeting

The seventh item should read :

"7. The Chancellor confirmed that the Revenue could talk, at the appropriate time, to the Department of the Environment about the options for DLT ..."



55TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 28TH NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Cardona  
Mr Cropper  
Mr Ridley

Conservative Finance Committee

1. Mr Cropper reported the previous day's discussion at the Committee. The back-benchers were broadly in favour of more expenditure cuts.

Public Expenditure White Paper Debate

2. The Financial Secretary reported that urgent Bills were being held up while at the same time there would probably be an unnecessary debate on the White Paper. Mr Cropper would provide the Chancellor and Chief Secretary, before Cabinet, with a list of such Bills.

Briefing for Back-bench Committee Chairmen

3. Mr Ridley would investigate the issues involved and report to the Chancellor.

EEC Budget Council

4. The controversy over the way the Financial Secretary had cast the British vote in the recent Budget Council highlighted



the need for better liaison with Conservative MEPs. The Chancellor would raise this in Cabinet. The Financial Secretary would draft a letter to The Times in reply to the long letter published on November 27th from Stanley Johnson, MEP, and clear the draft with No 10 Downing Street.

A handwritten signature in black ink, appearing to be 'GC' or similar initials.

GEORGE CARDONA

28th November 1979

Distribution: Those Present  
Mr Battishill  
Sir D Wass  
Sir L Airey  
Sir F Atkinson  
Sir K Couzens  
Sir A Rawlinson  
Sir William Pile  
Sir Douglas Lovelock



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 30TH NOVEMBER 1979

Present: Chancellor  
Chief Secretary  
Ministers of State, Commons and Lords  
Mr Cropper  
Mr Cardona  
Mr Ridley

European Parliament

1. The Financial Secretary reported on the letter he had despatched to the Editor of the Times in response to that of Mr Stanley Johnson complaining about the British Government's vote at the Finance Council on 23rd November, and the manner in which its publication was vetoed by the Foreign & Commonwealth Office (see Minutes of Meeting No 55, Item 4).
2. The Chancellor would initiate a dignified enquiry into the matter and would also re-examine the guidance to Ministers about Ministerial letters to newspapers.

GDP Growth Assumptions for Nationalised Industries

3. Ministers discussed the implications of the Chief Secretary's decision authorising the Department to supply Treasury GDP growth forecast figures to the Armitage Committee on Heavy Vehicles as a basis for their estimates.

Bray Forecast - Balance of Payments Figures

4. Ministers agreed that the problems which arose over the rounding of the figures for current account deficit in the Industry Act forecast had now been exhaustively explored.



Expenditure Debate

5. The Chief Secretary and Financial Secretary would speak on Wednesday, 5th December.

6. There would have to be prepared, and cleared with the Prime Minister, a precise statement of present policy about public expenditure in 1981-84, which the Chief Secretary would embody in his speech.

7. The Chancellor saw no opportunity for discussions on the broader issues of 1981-84 expenditure until the meeting of Cabinet on Thursday, 13th December.

Treasury Select Committee

8. The Chancellor agreed to a suggestion of the Minister of State (Commons) that he might invite (all) the members of the new Treasury Select Committee to meet Treasury Ministers at No 11. The Chancellor would also endeavour to meet Mr du Cann individually.

Public Accounts Committee and Treasury Select Committee

9. The Chancellor would seek advice on the relationship between Ministers, officials and these two Parliamentary Committees.

PETER CROPPER

30th November 1979

- Distribution:
- Those present
  - Mr Battishill
  - Sir Douglas Wass
  - Sir Lawrence Airey
  - Sir Fred Atkinson
  - Sir Kenneth Couzens
  - Sir Anthony Rawlinson
  - Sir William Pile
  - Sir Douglas Lovelock



57TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 4TH DECEMBER 1979

Present: Chancellor  
 Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Mr Ridley  
 Mr Cropper  
 Mr Cardona

*Handwritten notes:*  
 A pink squiggle at the top right.  
 'A.B.' written vertically in pink.  
 'to remove' written in pink below 'A.B.'

Public Expenditure White Paper Debate

1. The Chief Secretary and Financial Secretary would agree a carefully guarded form of words, for use in the debate, about the status of the expenditure figures for 1980-81 and the date of publication of the figures for later years.

Policy Reviews

2. The Chancellor would talk to Sir Douglas Wass about the general problem of giving Ministerial guidance to officials engaged in important inter-departmental committees, such as policy reviews.

Forecasts for Nationalised Industries

3. The Chancellor felt that the Treasury could not refuse to give guidance about the longer term growth assumptions sought by other departments and some nationalised industries. No decision was taken about what exactly the industries should be given by way of forecasts.

Public Expenditure: Draft Cabinet Paper

4. The Chief Secretary would look at the draft prepared for the small group. A meeting might have to be arranged to discuss it.



Legislation Committee

5. The Minister of State (C) would go to L on 5th December, in place of the Financial Secretary.

Enforcement Powers of Inland Revenue

6. It was agreed that in answer to an oral question in the House of Lords later in the day, the Minister of State (L) would merely say that this question was under constant review.

A handwritten signature in cursive script, appearing to read 'G.C.'.

GEORGE CARDONA

4th December 1979

Distribution: Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



58TH MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 11TH DECEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State C  
Minister of State L  
Mr Ridley  
Mr Cropper  
Mr Cardona

Public Expenditure

1. After a discussion of the relative merits of bilaterals and a Ministerial Committee as fora for further consideration of public expenditure, it was agreed that a Ministerial Committee was probably preferable. The Chief Secretary would cause to be prepared a minute for the Chancellor to send to the Prime Minister during the day, suggesting that Cabinet on 13 December be invited to endorse the principles that rents and social security benefits should no longer enjoy immunity from reductions, and that the rest of the Environment programme and Defence should no longer be in such a privileged position.

European Parliament

2. Mr Cropper would investigate the strength of the agricultural interest in the European Parliament.

3. The Financial Secretary would write a minute on the problem of relationships with the European Parliament. The Chancellor would speak to the Prime Minister about the general problem of liaison.

Proposed Capital Grant for Trade Union Training Facilities

4. Mr Prior wanted to spend £ $\frac{1}{2}$ m on a capital grant for trade union training facilities. The Chief Secretary would write to Mr Prior expressing sympathy for Mr Prior's objective of offering

the unions something, scepticism about the proposed grant, and stating that the Prime Minister should be consulted before a decision is taken. The issue was a politically controversial one and the No 10 guidelines on announcements suggested that advance clearance would be required in this case.

Parliamentary Question on Export Prices to MST(L)

5. The Chancellor thought the Minister of State (Lords) should answer for the Government on this matter.

Nationalized Industries

6. The Chancellor reported he had asked for an assessment of possible additional requests for funds for industry, eg from certain nationalized industries, Rolls-Royce and BL. He invited ideas on the system of financial control of the nationalized industries before his dinner with the industries' Chairmen on 13 December 1979.



GEORGE CARDONA

11 December 1979

Distribution: Those present  
Mr Battishill  
Sir D Wass  
Sir A Rawlinson  
Sir L Airey  
Sir K Couzens  
Sir F Atkinson  
Sir William Pile  
Sir Douglas Lovelock

59TH MEETINGNOTE FOR THE RECORDCHANCELLOR'S MORNING MEETING 12TH DECEMBER 1979

Present: Chancellor  
Chief Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Ridley  
Mr Cropper  
Mr Cardona

Prescription Charges

1. Mr Cardona would review the range of exemptions from prescription charges.

Nursery-school charges

2. The Chancellor would be provided with the minority report of the Plowden Committee and the CPRS paper on this subject, in time for his meeting with the Prime Minister on 13 December.

Aid Programme

3. The Chief Secretary would press for greater savings.

Waste in Government

4. An informal discussion with Sir Derek Rayner and Paul Channon would be arranged to consider progress and priorities. Meanwhile the three Advisers would submit a paper on the subject.

A handwritten signature in dark ink, appearing to be 'GC' or similar initials.

GEORGE CARDONA  
12 December 1979

Distribution: Those present  
Financial Secretary  
Mr Battishill  
Sir D Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 14TH DECEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Ridley  
Mr Cropper  
Mr Cardona

Banks' Profits and Pay

1. There was a discussion of the extent to which Ministers should talk to the clearing banks about these issues. It was agreed that the banks could be encouraged to publish inflation-corrected profits, but that there should be no mention of the possibility of any tax changes. It was also agreed that, given their admission that management could have resisted union pressures more firmly in recent pay negotiations, it would be sensible to urge them discreetly to moderate their pay settlements.

PRT Bill

2. Ministers agreed that through no fault of the Department their own preferences for Parliamentary handling of the PRT Bill had been somewhat neglected by the leader of the House and Chief Whip. It was stressed that the Parliamentary Section should feel free to seek Ministerial guidance or backing whenever they deemed it desirable.

BL

3. Mr Ridley drew attention to the Chrysler and Talbot precedents: the UAW was collecting loans from the workers to



help keep Chrysler (US) afloat, and Chrysler (Talbot) was moving close to concluding an agreement for an immediate 25% productivity increase. The Chancellor asked Mr Ridley to discuss these precedents with Treasury officials, and to prepare a letter to send to Sir Keith Joseph about them.

#### Public Expenditure

4. The Chancellor and Chief Secretary reported that Cabinet on 13th December had gone as well as could be expected. It was agreed that Ministers and Advisers should hold a discussion of public expenditure priorities and presentation in the near future.

5. Cabinet had left it to the Treasury to decide when to announce the delay in publishing the White Paper on expenditure in the later years. The Chief Secretary had already spoken to Sir Anthony Rawlinson about arranging a PQ.

*GC*

GEORGE CARDONA  
14th December 1979

#### Distribution

Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock

61ST MEETING

NOTE FOR THE RECORD

CHANCELLOR'S MORNING MEETING 18TH DECEMBER 1979

Present: Chancellor ✓  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Cardona  
Mr Cropper  
Mr Ridley

Inquiry into Inland Revenue and Customs and Excise Powers

1. There was a discussion of whether, in the light of the Rossminster case, it might be thought that the proposed inquiry would impinge the letter or spirit of the sub judice rules. It was considered that it would not, but it was agreed that in any case both the Attorney-General and Prime Minister should be consulted before the inquiry went ahead.

Housing Bill

2. Mr Heseltine's Housing Bill in its present form guaranteed council house purchasers access to public funds for mortgage loans. This was contrary to the agreement reached in H Committee and to a letter from the Prime Minister. It was agreed that at L Committee the Financial Secretary would press for the Bill to be amended before publication to remove the guaranteed access to public loans; if the Department of the Environment refused, then the Financial Secretary would insist - as a condition for publishing the Bill at all - that publication be accompanied by a clear statement of Mr Heseltine's intention to put down Government amendments to the offending clauses of the Bill.

ITV Levy

3. Messrs Ridley and Cardona would examine urgently the question of the appropriate form of levy and would brief the Chancellor before his meeting with Mr Whitelaw the same afternoon.

A handwritten signature in black ink, appearing to read 'G. Cardona'.

pp

GEORGE CARDONA

18th December 1979

Distribution

Those present  
Mr Battishill  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Sir Lawrence Airey  
Sir Kenneth Couzens  
Sir Fred Atkinson  
Sir William Pile  
Sir Douglas Lovelock



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NOTE FOR THE RECORD

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62ND MEETING

CHANCELLOR'S MORNING MEETING 19TH DECEMBER 1979

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Mr Ridley  
Mr Cropper  
Mr Cardona  
Mr P G Davies (items 5 & 6)

Doctors' pay review board

1. It was agreed that the Chief Secretary should consent to payment of an extra £10m, recommended by the review board, to cover increased VAT and other expenses.

BSC

2. Mr Ridley reported a warning from a reliable US source that BSC's problems could soon be added <sup>to</sup> by the imposition of protection against its exports to the US, partly based on arguments developed by Mr Nott (particularly over petro chemicals) in trade negotiations with the USA. The Chancellor asked Mr Ridley to draw this to the attention of Mr Monck.

PRT

3. There was a discussion of the draft arranged PQ recently submitted by the Revenue drawing attention to the possibility of an increase in PRT rates next year. The Ministers of State would consider the pros and cons and advise the Chancellor later in the day. The Chancellor felt no such action could be taken without, at the least, consulting the Department of Energy.

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Public Expenditure White Paper

4. It was agreed that it would be sensible, if "Part II" of the second Public Expenditure White Paper were published shortly before the Budget, to include all the associated economic analysis (normally in Part I), in the Financial Statement and Budget Report.

Presentation of public expenditure

5. It was agreed that while it was reasonable to allow the Press to conclude that the Treasury's search for further economies would have a somewhat different emphasis (in particular focussing more on DHSS), nothing to that effect should be said in public. It would be much better for both the Treasury and DHSS if speculation about the fate of Mr Jenkin's programmes were kept to a minimum.

6. Mr Davies reported that so far the Press Office had given the press guidance about 1980-81 but not later years. The Financial Secretary commented that there was no reason to give the press any information about the expenditure review beforehand, unless the information was helpful to the Government. The Chancellor concluded *Kat* briefing should concentrate on the reasons for expenditure reductions rather than speculation on what the cuts might be; and that the best approach to questions about specific areas was simply to say that all Ministers were looking at their programmes.



GEORGE CARDONA

19 December 1979

Distribution: Those present  
Mr Battishill  
Sir D Wass  
Sir F Atkinson  
Sir K Couzens  
Sir L Airey  
Sir A Rawlinson  
Sir William Pile - I/R  
Sir Douglas Lovelock - C/E



CHANCELLOR

- c Chief Secretary
- Financial Secretary
- Minister of State(C)
- Minister of State (L)
- Mr Cropper
- Mr Cardona

MORNING MEETINGS

I attach a brief record of actions requested at morning meetings but not completed.

2. May I suggest that at an early meeting in the New Year we consider whether:

a. there are any topics which should be put on the agenda for considered discussion;

b. we could improve our procedures in any way.

3. As far as topics go there might be a case for discussing relations with the European Parliament; the next stages in the Government's campaign of publicity and presentation; housing finance mortgage interest relief and stamp duty policy: the officials' "stocktaking" report (due shortly) which will give a useful picture of the pattern of business over the coming months; and the politics of the next round of spending economies.

4. On procedure two points occur to me. The first is that it would be sensible to put aside a reasonable amount of time - say ½ hr - for the discussion of any topic of substance. The second is that one of the advisers should be detailed to minute you overnight with any points which might be usefully considered at the next day's meeting, and to bring to your attention when so doing any proposals from the Advisers and Ministerial team.

*AR*

ADAM RIDLEY  
20 December 1979

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MORNING MEETINGS SINCE 3RD SEPTEMBER 1979

TASKS OUTSTANDING

<u>Date of meeting</u>	<u>Task</u>	<u>Progress so far</u>
3rd & 6th September	Meeting to be called on administrative burdens of letters from MPs	To be arranged
17 October	PJC to pursue with Mr Lovell question of RPI weighting, arising out of Customs' note of 16 October	In train
24 October	Suggested we get Sir Anthony Royle's list of Conservatives	List now known to be kept in Whips Office. Not possible to obtain a copy since it is a filing system.
4 December	Chancellor to talk to Sir D Wass about guidance for official inter-departmental committees	?
12 December	Three Advisers to prepare paper on Waste, for eventual meeting with Derek Rayner and Paul Channon	Nothing done so far.
14 December	Ministers and Advisers to discuss public expenditure priorities and presentation	Paper by GC on expenditure post-mortem coming very shortly

69

2/12/79

Plattam x.

cdi 152



N

ans

M

MR RIDLEY

cc Chancellor of the Exchequer  
Chief Secretary  
Financial Secretary  
Minister of State (C)  
Mr Cropper  
Mr Cardona

MORNING MEETINGS

✓ Your minute of 20 December.

1. So far as the second item is concerned (meeting of 17 October) my minute of 18 October addressed to the Chancellor disposed of the matter. There was a statistical appendix to that minute which was not circulated but is available if needed.

2. The apparent paradox - viz the disproportionate effect of an increase, especially in tobacco duty, on the RPI - admits of a very simple explanation. It is that if consumption falls, we lose not only a pro rata part of the increase, we also lose a pro rata part of the existing duty. If these two "losses" are then added together and related to the amount of the duty increase, they will obviously produce a much bigger percentage than the percentage fall in consumption.

Translated into arithmetical terms the position is as follows:

Present duty	100
increase in duty	20%
apparent new yield	120
" increase	20

Now assume consumption falls by 7%  
 Apparent new yield (as before) 120  
 Actual new yield  $93/100 \times 120 = 112$   
 Actual increase  $112 - 100 = 12$

Instead of getting a 20% increase in yield, we get 12% only. The price however will reflect the 20% duty increase, not the 12% increase in yield. It follows therefore that the RPI must go up disproportionately to the increase in yield.

3. Nor is the matter put right if we reduce the weight of tobacco in the Index by the fall in consumption. The index must still use the actual price (reflecting in the example the 20% increase in duty) and this would be reduced only by a factor equal to 7% (again to take the example quoted) of the weighting of tobacco in the index.

Tobacco accounts for about 4% of expenditure in the RPI. An increase of 20% in duty produces an increase very approximately of 10% in price. A 20% increase in duty therefore puts up the RPI by 0.4%. If we were now to reduce the weighting of tobacco in the Index by 7%, the expected fall in consumption, the effect on the Index would be to produce an increase of 10% multiplied by  $93/100 \times 4%$  ie 0.37% instead of 0.4%. In other words the reduction in the rise in the RPI would be of the order of a tenth (10%). The reduction in the yield of the duty in the example is 40% (ie 12 instead of 20). Consequently re-weighting the RPI doesn't significantly alter the position.

4. In the case of items such as petrol which are not so sensitive to price increases, the process described above has very little effect with the result that the increase in yield and the increase in the RPI are much in line with one another.

A.C.

LORD COCKFIELD  
 21 December 1979

CUSTOMER ID

ET404

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PLUS BOX NUMBER



531821136

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REF1 423772 NRM  
File Desc 2: PO--CH/GH/0049 PART A 1 Srv: 14/03 12:30pm GMT For: RQBY\*  
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