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CAB 128/92

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SUBJECT

MOST CONFIDENTIAL RECORD

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	<p>CC(88) 6th Conclusions Thursday 18 February 1988 ECONOMIC STRATEGY</p> <p>CAB 128/92</p>	

MOST CONFIDENTIAL RECORD
TO
CC(88) 6th Conclusions

ECONOMIC
STRATEGY

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(88) 3) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER said that Britain was now in a strong economic position. There had been continuous growth of $2\frac{1}{2}$ per cent or more a year in the five years from 1983 to 1987, the first time this had happened since the war. The public sector was no longer a net borrower. Britain's performance compared well with all the other major industrial nations save Japan. But there were also reasons for caution. There were major uncertainties abroad, especially in the United States, and earnings in Britain were rising too fast. He therefore thought it right to frame a prudent Budget, and to reduce taxation no further than was consistent with a modest Budget surplus. It would be helpful if the message from the Cabinet as a whole were that the Budget would be the occasion for reviewing taxation and borrowing, not public expenditure.

In discussion the following main points were made -

- a. The Opposition were trying to create expectations that the Budget would contain public expenditure measures, especially to increase spending in the National Health Service (NHS), and there was a danger that when it did not the public reception of the Budget would be affected. Action should be taken immediately to prevent the growth of these expectations.
- b. The case for aiming for a surplus was very strong. It would help to deal with the pressures in the economy, especially on pay. Indeed, a surplus could be presented positively as showing both the Government's determination to maintain a prudent policy, with room for manoeuvre if world economic conditions deteriorated, and the substantial improvement which they had secured in the public finances.
- c. More generally, the concern about inflationary pressures and the level of consumer demand showed the importance of maintaining tight financial discipline. A Budget surplus would contribute to this. It was also necessary to be prepared to raise interest rates if financial conditions required it. It was vital too to maintain the exchange rate discipline, so that industry did not feel that it would be protected by devaluation from the consequences of failing to keep costs under control.
- d. The recent movement abroad to reduce the top rates of tax left Britain's looking rather high. There was a strong case, on grounds of improving incentives, for reducing the top rates and also possibly for simplifying the top rate structure. That would be a good year for making such changes. It was important to attract mobile foreign investment.

e. Table 2 of Annex 3 to C(88) 3 showed that those on half average earnings paid a higher proportion of their gross earnings in tax and National Insurance Contributions than when the Government came into office. The unemployment and poverty traps which affected people at lower levels of earnings had a serious effect on incentives and it was important to reduce the tax burden at those levels. A substantial increase in personal allowances would be a way of achieving that.

f. Tax reform was never easy, since powerful groups could be disadvantaged. But it was important to the efficient running of the economy. It was the right year to consider a bold package of reform which could be justified as laying the foundations for future economic success. There was a strong case for simplification, for example of Capital Gains Tax, and the introduction of greater fairness in the taxation of husband and wife. The possibilities for extension of the Value Added Tax base were limited by pledges which had been given, but if any such extension was likely to become necessary for European Community reasons it would be better for the Government to make a virtue of necessity themselves.

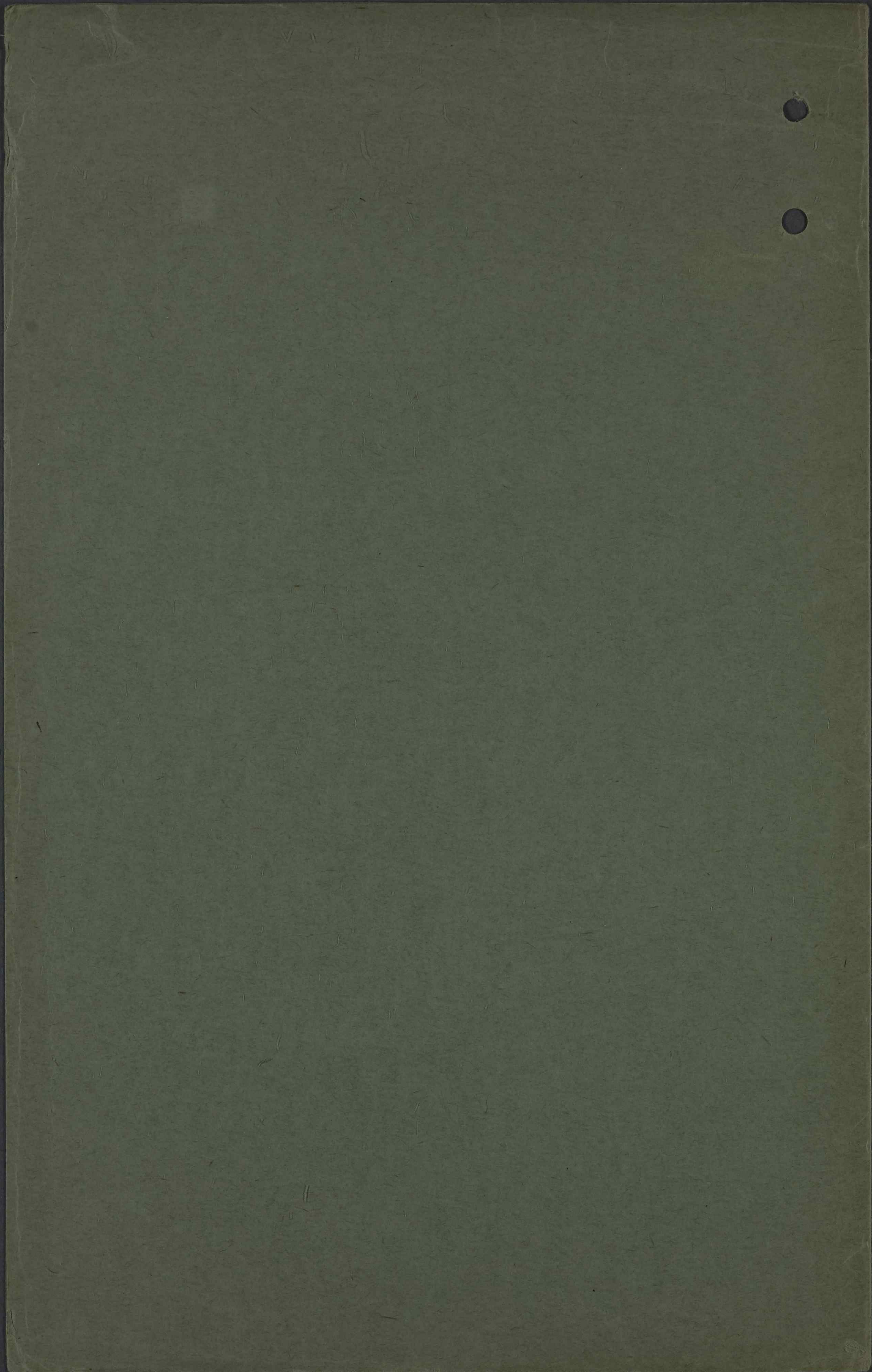
THE PRIME MINISTER, summing up the discussion, said that the Cabinet congratulated the Chancellor of the Exchequer on his successful management of the economy. They endorsed the need in framing the Budget to follow a prudent policy as described in C(88) 3, and to continue to encourage incentive and effort. They also believed that it was a good year for considering structural changes in the tax system. Finally, they were agreed that it was essential to make it clear at that time that the Budget would not be the occasion for substantial expenditure proposals, for example on the NHS. She would arrange for the press to be told that the Cabinet had had its usual pre-Budget discussion; and that they had stressed that increases in public expenditure for the coming year had already been considered and announced, and that the Budget would be the occasion for reviewing tax and borrowing, not expenditure.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to take account of the discussion in preparing his Budget.

Cabinet Office

22 February 1988



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MOST CONFIDENTIAL RECORD

TO

CC(88) 35th Conclusions

THE QUEEN'S
SPEECH ON
THE OPENING
OF PARLIAMENT

THE PRIME MINISTER said that before the Cabinet considered the memorandum on The Queen's Speech by the Lord President of the Council (C(88) 15) she wished to inform them that it was proposed to announce in The Queen's Speech a Bill to place the Security Service on a statutory footing. The background to this Bill was that although the Security Service had hitherto operated successfully without specific statutory cover, the issue had attracted increasing attention, and the small group of colleagues that had been considering the matter for more than a year had now concluded that the time had come to put the Service on a statutory basis. The Security Service themselves were fully behind the proposal and this legislation, at a time of the Government's own choosing, would also help in dealing with some forthcoming cases under the European Convention on Human Rights. The proposals had been under consideration for some time and were certainly not being brought forward as a response to the book "Spycatcher" or to the litigation about it. The preservation of secrecy lay at the heart of the Security Service's work, and there were obvious problems in devising a statutory scheme of oversight. The idea had gained ground in some quarters that the Security Service might be placed under some Parliamentary machinery, such as a committee of Privy Councillors, but that was quite unrealistic. The forthcoming Bill would therefore declare that the Security Service operated under the authority of the Secretary of State, and would not in any way change her own and the Home Secretary's responsibilities in these matters. The way in which a degree of public accountability could be established for a secret agency had been demonstrated by the Interception of Communications Act which provided a model for the system of authorising warrants and the complaints machinery that would be embodied in the forthcoming Bill. It would also be necessary for the Parliamentary handling of the Bill to be as swift and successful as that of the Interception of Communications Act, with no significant changes being made during its passage. The Queen's Speech would therefore include the short reference: "A Bill will be introduced to put the Security Service on a statutory basis under the authority of the Secretary of State", and the Bill would be published on the day after the Speech. She would make a short reference to the Bill in her speech on the first day of the Debate on the Address, and the Home Secretary would make a fuller announcement when it was introduced. Thereafter, the Bill should be taken forward with all deliberate speed. The Committee Stage would have to be taken on the Floor of the House. It was absolutely essential that there should be no publicity about this Bill before the opening of the new Session though, in accordance with the usual practice, it would be necessary to make the full text of The Queen's Speech available to the Opposition in confidence on the afternoon of the day before its delivery. Junior members of the Government would be told when The Queen's Speech was read at the Eve of Session dinner.



THE HOME SECRETARY said that legislation to provide a statutory foundation for the Security Service had been under review for some time. The proposals to legislate in the forthcoming Session had been largely prompted by the Security Service themselves, who greatly welcomed the proposals. The legislation would be difficult in Parliamentary terms, and the difficulties would be greatly compounded by any speculations and assertions in the media in advance of The Queen's Speech.

THE LORD PRESIDENT OF THE COUNCIL said that some care would be needed about the Parliamentary management of the Security Service Bill, together with the Official Secrets Bill and the Prevention of Terrorism (Temporary Provisions) Bill. Since the Security Service Bill would be coming as a surprise to Parliament, it would be all the more necessary to observe the usual Parliamentary procedures, such as the passage of two weekends between the introduction of the Bill and its Second Reading. It might be helpful if the Official Secrets Bill were to be published before the Security Service Bill was taken to Second Reading.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had agreed that a Bill to put the Security Service on a statutory basis under the authority of the Secretary of State should be added to the legislative programme for the forthcoming Session, and that a reference to that effect should be included in The Queen's Speech. It was most important that there should be no publicity on the matter before the Opening of Parliament.

The Cabinet -

Endorsed the Prime Minister's summing up of the discussion.

Cabinet Office

16 November 1988

