

47a-d

PRIME MINISTERBILATERAL WITH THE CHANCELLOR: 4 APRIL

Tomorrow's meeting with the Chancellor falls into two parts:

- your normal meeting à deux for 30 minutes;
- then you will be joined by the Chief Secretary to discuss public expenditure prospects.

NORMAL BILATERAL

There are three issues you may want to cover.

(i) Treasury paper for MISC 141

The Chancellor has now sent you (flag A) a draft of his paper for circulation to MISC 141 on controlling greenhouse gas emissions.

You will recall that the last meeting of the committee, which was to have discussed this paper, was postponed to give the Chancellor more time to reflect. The latest plan is to discuss the paper at a meeting on 26 April; and it might be desirable to get the paper circulated before Easter. It is quite important to hold to the timetable for the 26 April meeting; if there is any further postponement that would start to threaten the planned timing of the White Paper.

So the key issues to settle tomorrow are:

- (a) whether you are content for the Chancellor to circulate before Easter a paper on broadly these lines;
- (b) if so, whether you want any particular changes made.

The Chancellor's covering minute draws attention to the sensitivity of some of the references to possible taxation changes.

b

The present draft is not bad but long-winded. The broad message is that:

- the UK should be prepared to accept a commitment to stabilise CO₂ emissions at 1990 levels by 2005, though we should initially aim for 2010 or later;
- the precise means of achieving this should be left open at this stage;
- it is likely to require a mixed package of measures but with an increased price of energy playing a central role.

One or two points to note on the draft are:

- paragraph 29 provides a table showing possible packages for reducing CO₂ emissions by 2005 or 2010. What is not immediately clear - see last sentence of paragraph 29 - is what growth of energy prices is assumed in the underlying base projections.
- the general thrust is that market based measures via price/tax increases are generally superior to regulation. That is probably right, but you may want to see the analysis set out more rigorously.
- paragraph 60 says that MISC 141 provisionally agreed to think in terms of 2005 as the target date. That perhaps slightly overstates the conclusion, which was that nothing earlier than 2005 should be accepted.
- paras 61-62 address the question of links to electricity privatisation. An important point brought out is that uncertainty about the Government's intentions on emissions would be worse for privatisation proceeds than a clear statement about intentions.

(ii) Informal ECOFIN meeting

The Chancellor may want to report on the weekend discussions in Ireland. You have already seen the material on this at flag B. I suggest you avoid getting too deeply into this. The Chancellor has it in mind to send you a paper for the Easter weekend on the handling of the run up to the IGC; and you will recall you are having a seminar with the Chancellor and the senior Treasury team on the Tuesday immediately after Easter. That would be a suitable occasion to discuss these issues in some depth.

(iii) Child tax allowances and pension age

You have had intermittent brief exchanges with the Chancellor about both the possibility of a shift from child benefit towards child tax allowances and the difficult problem of whether, and if so when, to contemplate an increase in the pension age. Both these issues involve the Department of Social Security, but you were minded to talk them through first with the Chancellor before bringing in Tony Newton. I do not suggest you have any substantive discussion of either at tomorrow's bilateral, but if time permits you might take stock briefly of how these questions are to be carried forward. I gather that the legal position on the EOC case against the UK on pension age remains uncertain.

PUBLIC EXPENDITURE

The Chief Secretary has provided the material at flag C comprising a note summarising the prospects for the 1990 Public Expenditure Survey and a possible minute he might circulate to all members of Cabinet. Tomorrow's meeting gives you a chance to talk this issue through with the Chancellor and Chief Secretary in advance of the meeting on Thursday with both Treasury and DOE Ministers to discuss a first paper on options for the community charge.

At this time of year the Treasury always says that the Survey is going to be extremely difficult. Last year you may recall I suggested at this stage that the 1989 exercise would be tougher than preceding years. The outcome was the need to make very substantial additions to the spending totals, although these remained just consistent with some modest further reduction in the projected public expenditure/national income ratios.

The Chief Secretary is right to suggest 1990 will again be a very tough exercise. In fact I would guess this could be by some margin the most difficult spending round since the early 1980s. This is because:

- all through the mid and late 1980s it was possible to allow significant additions to the cash planning totals, consistent with healthy ratios, because of strong economic growth. Having slowed last year we shall see virtually no economic growth through 1990; so that safety valve has gone.
- higher than expected inflation has also provided a "way out" for permitting increased spending. You will want firmly to avoid that this year.
- the focus of this year's Survey is the spending plans for 1991-92. All spending Ministers will, rightly, be pointing to the political significance of that year.

So even before considering the community charge issue the Survey looks extremely difficult. And you will want to ensure that maximum priority in the Survey is given to that problem.

The issues to settle are:

- whether the Chief Secretary should circulate a minute to Cabinet along the lines proposed; and if so when;
- at what point you want to give a signal to Cabinet colleagues of the need to give first priority in this year's Survey to the community charge issue.

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