

PRIME MINISTER

B/F 16-6-87  
Deaves  
for check on meeting  
on 17/6.

Meeting with the Chancellor: 1430, Wednesday 10 June

I don't think the Chancellor has much to discuss tomorrow.  
He may raise the following:

- (i) Lord Thorneycroft's letter to you on the business start-up scheme (Flag A). At Flag B is the Chancellor's statement last Friday on the concessions he has made.
- (ii) Defence discussion in OD. The Chancellor was no doubt disappointed at the general flavour of the discussion - which favoured not only Mr. Nott's proposed pattern of spending, but also one or other of his spending profiles. Of course, it may be a different story in Cabinet when the other big spending Ministers come in. If one or other of Mr. Nott's options has to be accepted, I would think the Chancellor would do well to agree 3 per cent per year up to 1987/88 rather than 3 per cent up to 1985/86 plus £200 million in each year. He can ill-afford the extra £200 million, which in effect will mean higher taxation in the period before the election. By contrast, the 3 per cent commitment for the further two years 1986/87 and 1987/88 is pretty theoretical at this stage. Having said this, it is clear that the Chancellor's public spending problems are frightening - see the paper at Flag C that you have already seen.

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At Flag D is the revised version of the Chancellor's strategy paper. You said you would like to have a session with him and the Chief Secretary at Chequers on Sunday evening to go over it. Would it not be better to do this at No. 10 early next week? For example, we could do it late on Tuesday afternoon before the CBI dinner. !

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/You told

9 June 1981

You told the Home Secretary early last month that you did not favour Mr. Heseltine's proposal to include rent deregulation in the housing legislation for the next session. You suggested to the Home Secretary that he should sort this out. I understand that Mr. Heseltine is still intent on including this measure, and that he is asking the Chancellor to help. In advance of Cabinet's discussion on Thursday on the legislative programme, you might indicate to the Chancellor your doubts about this. (He <sup>may</sup> ~~will~~ not be aware of the discussion which you have had with the Home Secretary.)

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