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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE CHANCELLOR
OF THE EXCHEQUER ON WEDNESDAY 16 SEPTEMBER
AT 1715 HOURS

The following are the main points that came up at the Prime Minister's meeting with the Chancellor yesterday afternoon.

(i) CSD

The Prime Minister told the Chancellor of her preliminary ideas on the future of the CSD. She now had it in mind to move their manpower and pay functions to the Treasury and to locate their efficiency functions in an expanded section in the Cabinet Office under Mr. Cassels. She wanted to discuss all this further with the Chancellor and with Sir Robert Armstrong and Sir Douglas Wass at the meeting that had been arranged for Friday afternoon. The Chancellor made one point: if manpower and pay functions were to be transferred to the Treasury, he would need to have an extra Treasury Minister. All five Treasury Ministers were at present fully occupied. The Prime Minister said that she would bear this in mind.

(ii) EMS

The Chancellor said that he hoped to let the Prime Minister have a paper on the EMS before the weekend. He did not wish to rush into a decision: at present he still thought the economic arguments were marginally against our joining, but he recognised the political arguments in favour. At the same time, there were also important political arguments against which had to be fully considered - it could well be unpopular domestically, and it would provide the trade unions with another stick with which to beat the Government. The Prime Minister said that she too did not wish to be rushed into a decision; she would want to be convinced that there were positive arguments in favour of our joining, rather than that there were no longer sufficiently strong arguments against ^{our} ~~for us to~~ continue ^{it} ~~staying~~ out. She also recalled that Mr. Nott was a strong opponent of our joining; she would want him to be involved in any preliminary discussion of the issue. It was provisionally agreed that there should be a

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meeting sometime in October to consider the Chancellor's paper - the meeting should include Lord Carrington, Mr. Nott and probably Mr. Lawson.

(iii) Merseyside

The Prime Minister said she had been thinking again about the idea of sending individual Ministers to the North East and the West Midlands as well as to Merseyside. She was coming round to the view that other regions would think it very unfair if only Merseyside was given a Minister. The Chancellor repeated the arguments that had been made at the meeting of the small group of Ministers that considered Mr. Heseltine's paper against allocating Ministers to other regions. It was left that no new action should be taken for the time being.

(iv) Defence Cash Limits

The Chancellor explained that MOD were heading for an over-run of £300m - £400m, and that Mr. Nott was asking for an increase in the cash limit of about this amount. He was trying to get further explanation for the reasons for the over-run, and he hoped to be able to resolve the issue without troubling the Prime Minister further. But he thought the Prime Minister ought to be aware of what was happening. The Prime Minister said she was most unhappy to hear that, for the third year running, MOD were heading for a substantial over-run; she hoped that the Arthur Andersen report would lead to improvements in MOD's accounting practices which would reduce the risk of over-spend in future years.

(v) Public Expenditure Decisions in October

The Chancellor said that he had been thinking of getting together a group of senior Ministers to try to persuade individual spending Ministers of the need for cuts in their budgets. However, in the light of the Cabinet reshuffle, he had now concluded that it would be better for Treasury Ministers to tackle them themselves.

/ (vi) Cancun

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(vi) Cancun

No decision was taken on whether the Chancellor should attend Cancun. The Chancellor said that he would try to persuade Secretary Regan not to go. If Regan did not go, then he would not either.

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