

PRIME MINISTER

Meeting with the Chancellor, 1730, Wednesday 4 November

I understand that the Chancellor is planning to raise four points with you:-

1) Presentation of Government Policy

He is concerned that the Government's message is not getting across and discussing with Treasury officials ways of improving our presentation. I expect that he will wish to tell you what he hopes to achieve.

2) Public Expenditure Leaks

The Chancellor suspects that some of the leaks from the 20 October public expenditure Cabinet arose through our press section. He is particularly concerned about the briefing he believes was given to the press at that time about the public expenditure totals, at a time when we certainly should not have been talking figures to the press.

3) MISC 62

He will probably wish to up-date you on progress in the Home Secretary's Public Expenditure Group. There is in particular - as was only to be expected - difficulty about defence expenditure.

4) Economic Assumptions

The Chancellor will almost certainly wish to discuss his note on the economic assumptions he is to publish under the Industry Act, and as required by the Government Actuary, for the National Insurance Fund (minute to you of 27 October attached). In short, the Chancellor wanted to publish an earnings figure of 7½ per cent. You have suggested publishing a number of different figures - say 5½, 6½ and 7½ per cent. The Treasury's letter to you of 2 October explains that there is no escape for using a single figure for earnings, since this is operationally required by the Government Actuary. The Chancellor will say that last year we published an assumption of 10½ per cent at a time

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when we had announced a 6 per cent pay factor, so what he is proposing is in line with last year. He will also argue strongly that publishing a forecast below  $7\frac{1}{2}$  per cent would severely damage the Government's credibility.

MLS

4 November 1981