

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have an hour with the Chancellor tomorrow afternoon. The Chancellor will want to concentrate on the handling of the Economic Cabinet.

The first question is whether it should go ahead for 13 February. The Treasury tell me that the Chancellor's views have been shifting in the direction of greater prudence, encouraged by the fall in the oil price. But he has as yet reached no conclusion, even provisionally. That, and the continuing great uncertainty about the economic picture, has raised a questionmark about whether the Cabinet should be postponed for a week. A very bland and anodyne paper could be prepared, but the tone of the paper and of the Chancellor's remarks at Cabinet will be affected by the state of his thinking.

There is quite a strong case for going ahead, regardless. Cabinet colleagues will have seen a provisional agenda including the macro-economic item. And the nearer the discussion to the Budget itself, the more "real" the discussion becomes. The circulation of the agenda is not an insuperable point - colleagues would understand the Chancellor's problems if he explained them next Thursday - but it perhaps helps tip the balance towards going ahead as planned.

The second area for discussion is the presentation of the arguments in the Chancellor's paper. He will want to take your views on this.

Thirdly, a question you might raise with him, is how he sees the balance of opinion amongst colleagues about rates v. thresholds - assuming there is scope for tax cuts.

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