

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

I imagine you will want to touch base with the Chancellor on any developments with Mr. Rifkind and Scottish expenditure. (We still have had no request from the Scottish Office for Mr. Rifkind to see you).

It would be useful for you to discuss with the Chancellor his approach to the announcement of the increases in the planning total. You will have a bilateral with the Chancellor on Tuesday to discuss this in more detail on the basis of a draft of the statement. But your meeting tomorrow could be used to influence him.

I understand that the Chancellor intends to be quite bullish about the increases in public expenditure, suggesting that they represent a considered decision by the government to increase spending on priority areas. This may be an overstatement of his intentions. But in any event there is clearly a need for a balance to be struck. The announcement must not be presented as a defeat. It must be positive, pointing to the benefits of the extra spending. But to go wholly in that direction risks giving the impression that the Government is now in favour of higher public spending, and that its priorities have changed. There must be a clear statement of the Government's continued determination to control spending. It would surely also be right to point to the increase in spending by local authorities which will put an added burden on ratepayers, and to the inexorable rise in spending on social security.

The Chancellor may anyway have this balance in mind. But it would be worth exploring with him. His instinct is always to put the best possible face on things. But in this case that could undermine market confidence in the Government's resolve to control spending and borrowing.

You will also want to touch on National Insurance Contributions. I understand that the Chancellor has proposed to Mr. Fowler that there should be no increase in National Insurance rates; earnings limits should be increased in line with inflation; the amount paid to the National Health Service from the National Insurance Fund should be increased by the maximum allowed without legislation ie an amount equal to 0.1 per cent for employers and employees. Mr. Fowler has not yet replied to these proposals but I understand he is likely to agree to the first two proposals but not the proposal on the NHS element. I do not know his arguments.

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DW

DAVID NORGROVE  
~~OCTOBER~~  
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