

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor wishes to discuss mainly public expenditure.

He is, as you know, exercised about the discussions on RSG. Mr. Ridley is proposing to keep the grant at 46.4 per cent, and with the provision which Mr. Ridley favours, this would mean extra grant of £986 million by comparison with this year. The Treasury would like to see both a lower percentage and lower grant. The spending colleagues are in fact pressing for higher provision with the same percentage, and therefore still higher grant.

The Chancellor saw Lord Whitelaw this afternoon, who took note of the Treasury concerns. There is a meeting tomorrow before your bilateral between the Lord President, Mr. Ridley and John Major.

I do not think there is anything you can usefully say to the Chancellor. It is not something on which it is easy to give an opinion without detailed knowledge of distributional consequences and so on, and anything you say could too easily be quoted out of context by the Chancellor.

The Chancellor is also likely to tell you about the latest position on public expenditure, though I am not aware that this has changed significantly since your last bilateral.

You might tell the Chancellor about your meeting on defence expenditure, but I suggest that you should not mention figures to the Chancellor. You will not want to give the impression of adding to the pressures on him, but he will take the point.

*by Steven
DAILY CLERK
PP
DN*

13 July, 1987.

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SECRET