

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor wishes to devote the meeting to public expenditure questions.

(i) Handling of Cabinet

Copies of the papers circulated for Cabinet are enclosed. The Chancellor has been talking to a number of colleagues and he can report on the position reached. You will want to consider how to handle the discussion and how the outcome of the meeting is reported to the outside world. Attached is a letter from the Treasury suggesting how this might be done.

(ii) Presentation of Policy on Public Expenditure.

The Chequers meeting identified the dilemma of how to take credit for what has been achieved on certain programmes while giving the right signals about restraint of the total. Clearly you did not like the Chancellor's "middle way" formulation. You could discuss with him how else the right balance can be struck.

(iii) Fiscal Adjustments

The Autumn Statement has developed from two pressures - those wanting to see the Government forecasts for the economy, and those wanting to make progress ^{towards} for a provisional, two-sided, budget. To satisfy the latter the Treasury have published forecasts of revenue and expenditure for the financial year starting five months later. With a given target for the PSBR, the residual shows up as a fiscal adjustment.

The Chancellor dislikes this presentation which creates an atmosphere that the only issue is how to distribute the goodies, distracting attention from the need for restraint if there are to be any goodies to distribute. Given the margins

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of error involved, Chancellors will very often be in a position of disappointing expectations raised the previous Autumn. The Chancellor of the Exchequer has hinted to the TCSC that the case for this presentation needs to be reviewed and he proposes to broach the subject with the 1922 Committee. He is thinking of dis-continuing estimates of revenue which he believes have no policy content though in return he would provide estimates of expenditure for three years hence rather than one. This, however, would represent a set-back for the provisional budget school.

ANDREW TURNBULL

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