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PRIME MINISTER

DEPARTMENT OF EMPLOYMENT

You should know that Mr. Fowler asked for a meeting with you tomorrow to take you through the settlement he is likely to reach with the Chief Secretary this afternoon. I felt it would be wrong for you to see Mr. Fowler at this stage of the Public Expenditure Survey, and Lord Whitelaw (with whom I discussed this) strongly agreed.

Mr. Fowler later telephoned me to say that the measures he will be taking are likely to have some impact in terms of measured unemployment (i.e. presumably reducing the rate of fall), but this can be handled. It will look as if his base line is being maintained, but in fact there are quite sharp cuts because transfers from DHSS needed to meet new commitments are not to be met in full. ("Stern stuff".) But Mr. Fowler's main point is to urge that he would be made to look foolish if other Departments now received large increases.

This is no doubt a point which can be picked up at your meeting with Lord Whitelaw on Monday if necessary.

*mf*

*DAN*

David Norgrove

30 September 1987