

PO - CH/NL/654

PART A

P0/CH/NU/654.

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P0/CH/NU/654
PT. A

SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins: 17/10/84
Ends: 11/10/89.

Nigel Lawson's Bilaterals with
The Prime Minister.

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

D's 25/11/97 14-11-97

my

FROM: DAVID PERETZ

DATE: 17 October 1984

+ Case

CHANCELLOR

TOMORROW'S BILATERAL WITH THE PRIME MINISTER

Subjects are:-

- (i) Peter Lilley. You might by the way want to glance at the wording opposite from "questions of procedure for Ministers" - though of course this does not deal with the presentational aspect.
- (ii) I gather the Prime Minister wishes to ask you about the Derx/Smith/Burgner move. I must say I would have thought the answer to the problem, if there is one, would be for the Department of Employment to have a different division of duties between Deputy Secretaries. *(they were bound to say that my personal Department of Employment source did not have as much good to say about Smith as Robin Butler seems to have had).*
- (iii) The exchange rate. A copy of the note from your Cabinet folder is opposite.
- (iv) British telecom/Autumn Statement timetable. I have told Andrew roughly where things stand, and that a minute will be coming in due course. *(you have the pps)*
- (v) Public expenditure. A note from Paul Grey opposite (Michael Scholar is ill). Andrew confirms that the penny has finally dropped with the Prime Minister about how difficult things are this year.
- (vi) Finally, you wanted to raise the question of Robin Butler's own future. I have put opposite Sir P Middleton's brief for the meeting you had with him and Sir R Armstrong.



2. I have also put opposite my letter to Andrew Turnbull about economic assumptions, in case the Prime Minister should raise it; a note about MISC 101, which you said you wanted to raise (but which should perhaps be weeded out given the length of the list above). Partnership avoidance is for next week.

DL

D L C PERETZ

P.S. I've also put the fyp about ~~the~~ security risks etc (which PEM mentioned) opposite - just in case the PM shd raise it.

DL

SECRET

pmp



FROM: DAVID PERETZ

DATE: 24 October 1984

CHANCELLOR

BILATERAL AT NO.10

The Prime Minister knows that you will be raising the following subjects:-

(i) Partnership avoidance. The papers are opposite, including a new note from Mr Beighton. I have, as agreed, sent Andrew Turnbull copies of the 1978 correspondence. Also opposite are the Hansard texts of the recent announcement by the Financial Secretary; and your own earlier statement to the House in the course of a debate on PAC reports. You said you would mention, also, that the Lords Cockfield and Young had both endorsed our approach.

(ii) The £ note and £ coin. As you know the Prime Minister has reacted badly to our proposal: though it may be that she would be prepared to go for "not yet" rather than "never". There is a useful brief opposite from Sir P Middleton's office, with other papers below it.

2. You will also want to talk about:-

(iii) The markets. I have placed opposite a copy of the brief that is on the Cabinet folder. Andrew tells me that a particular point the PM may want to raise is how she should respond to questions about the September current account deficit (announced today). I have placed a copy of the briefing opposite also: I suppose the obvious simple points for the PM to take at Question Time are (a) must not look at one month by itself; and (b) clearly the extra oil burn at power stations has made a difference to the current account. (You might urge the Prime Minister to give a figure - around £300 million a month, though Andrew would need to clear this with the Department of Energy).



3. The last matter which the Prime Minister may raise is the question of the next Chairman of the Inland Revenue. I understand that Sir Robert Armstrong's minute has gone into her tonight, but sealed in an envelope which neither Robin Butler nor Andrew Turnbull have opened. I therefore asked Andrew to write a note on top, which he is doing, to say that you were not very happy with the contents of the envelope because:-

(a) by implication at least it misrepresented Sir P Middleton's views - which were in fact the same as yours (which were correctly recorded in the minute).

(b) When you had discussed the matter with Sir Robert Armstrong he had agreed with your view, and indicated he would minute the Prime Minister accordingly. [I am afraid, by the way, that I did not formally minute your meeting with Sir Robert Armstrong, though I could of course easily construct a minute from my notes if needed]. Is the best way ahead to propose a four sided meeting with the Prime Minister, you, Sir Robert Armstrong and Sir Peter Middleton?

4. Finally, I should mention that the Prime Minister will have seen David Owen's letter to you about Johnson Matthey (copy opposite) - because Dr Owen could raise it at Question Time tomorrow. If he does she is being advised to say simply that you will be replying to David Owen's letter.

A handwritten signature in dark ink, appearing to be 'D L C' followed by a stylized flourish.

D L C PERETZ

mp

FROM: DAVID PERETZ

DATE: 31 October 1984

*No. 10
Per-Cat.
Habitat*

CHANCELLOR

*P Peretz***NO.10 BILATERAL: 1 NOVEMBER**

Despite my efforts at mind reading, I've only managed to concoct a rather short list.

(i) Public Expenditure. Andrew Turnbull tells me that tonight's meeting became rather rushed at the end, and thought you might want a further talk about (a) the energy programmes (though of course we are still not entirely clear what it is Mr Walker has offered), and (b) how we would bridge the remaining gap - that is how we would explain it (NIS and Corporation Tax). I have put opposite the papers from tonight's meeting.

(ii) Prime Minister's speech in the debate on the address. She is not expecting you to raise this. But I have placed opposite a request from Andrew to Sir T Burns for some material; and the knocking material on Mr Kinnock's speech yesterday, which I have already sent across to Andrew (for his own use in speech drafting). If you had any points about the general line she might take I should think this might be an opportunity to make them (but it looks to me as though she is likely to follow the main message of your own recent speeches anyway).

(iii) You could mention the Cropper/Ridley move which is coming up. I understand that a draft letter to send to No.10, formally, about this should be with us very shortly.

DLCP

D L C PERETZ



FROM: DAVID PERETZ

DATE: 14 November 1984

CHANCELLOR

NO.10 BILATERAL

Subjects are:-

- (i) BT. (I have put opposite a check list of good points, and points where the Government seems likely to be criticised. Other BT papers on the Cabinet folder.)
- (ii) FCO. I have told Robin Butler the outcome of your meeting with the Foreign Secretary. I have put opposite a rather rough draft of a note for the record (but not for circulation). (AEF are already getting to work with FCO officials, and Mr Bailey is considering the pros and cons of reaching agreement on new figures before the White Paper).
- (iii) NIIB. Latest papers opposite. We ~~would~~^{will} let you know if there is any more news first thing in the morning.
- (iv) ^{AS}~~AS~~ post mortem. You might want to discuss with the PM how it has been recieved, how the debate went on Tuesday, and what lessons there are to be ~~head~~ for where our strong and weak points are. (You might also mention the John Major point about the aid/FCO fuss blowing itself out).
- [(v) Staff matters. I have put opposite a note of your last discussion with Sir P Middleton - which I have not yet sent to him - just in case the PM raises this. You will of course be discussing it with Sir P Middleton and Sir R Armstrong on Friday].]

DLCP

D L C PERETZ



FROM: DAVID PERETZ
DATE: 21 November 1984

+ Make
+ Honor

CHANCELLOR

NO.10 BILATERAL

I understand from Andrew Turnbull the Prime Minister may want to raise:-

(i) The timing of a post-mortem on the PES round. I discussed this with Mr Bailey. It is going to take officials a couple of weeks (and as you know Sir P Middleton is taking an active interest) to produce their thoughts. You and the Chief Secretary will then want to discuss with officials. As I suspect it might be getting quite close to Christmas before you are ready to discuss with the Prime Minister - and I understand she has a foreign visit planned for then. So it is possible that a meeting with the Prime Minister might have to be delayed until after Christmas. Perhaps the best formulation would be to agree to a meeting "sometime in the Christmas recess".

(ii) Taxation of Pensions.^{*} I understand this came up at a recent meeting the Prime Minister attended at Central Office. She is content with the general line we have given her to take for the time being (papers ^{below} ~~opposite~~). But she may ask you what you have in mind. I told Andrew that our thinking was a very early stage, and that it would therefore be premature to have a discussion of substance.

2. Points you want to raise are:-

(iii) Martin Jacomb. As I told you, I have been discussing this with Robin Butler. It is (just) still not too late to put him forward for the New Year. But I understand that the Prime Minister (or it may well be Robin) has some doubts - on the grounds that a K should be earned by a long period of achievement, rather than by one particular success. I have told Robin (and this is probably the best line to take with the Prime Minister) that that is precisely the point: the Governor had put forward Martin Jacomb as a substitute for Lord Mackworth-Young, (letter from the Governor ^{below} ~~opposite~~) on the basis of a series of contributions - including his ^{deputy} chairmanship of the

* Was it the press comment that there had been "Treasury leads" on this & other tax matters that you wanted to raise with the PM?



CSI, and of the Governor's "posse". But you and the Governor had thought it best to wait to see whether or not British Telecom was a success before recommending him for the New Year list.

(iv) The TSRB and the Review Bodies. Papers and a speaking note ^{below} ~~opposite~~.

3. Other points that could come up are:-

(v) The markets. A copy of the note from your Cabinet folder is ^{below} ~~opposite~~.

(vi) Senior appointments. I understand that Sir Peter Middleton's meeting with Sir Robert Armstrong today ended with an agreement that Sir Robert Armstrong would write a paper - which I presume he will then show to Sir Peter to look at. Meanwhile, I have put ^{below} ~~opposite~~ the record of your latest meeting with Sir Robert Armstrong and Sir Peter Middleton.

DLC

D L C PERETZ



FROM: DAVID PERETZ
DATE: 28 November 1984

*Student grants:
L.A. capital
B.M.C.*

CHANCELLOR

NO 10 BILATERAL: 29 NOVEMBER

You are not ready to discuss pensions/tax. The Prime Minister's proposed dinner for NEDC members has been fixed for the eve of the January NEDC meeting, but no invitations are to be sent until Sir Peter Middleton has sounded out the G-4 on 10 December. A date for the Prime Minister's public expenditure post-mortem meeting has been fixed for early January.

2. The main points for discussion seem to be:-

(i) "A banking crisis in the United States". Andrew Turnbull warns that the Prime Minister will want to raise the note (below) from Alan Walters. The answer is that we did a lot of contingency planning on this, getting on for a year ago, and there is a long paper produced by Nick Monck. We will try to get a copy of this first thing in the morning.

(ii) Public Expenditure Total for 1985-86. The Chief Secretary's minute of earlier this week (copy below) gives a good excuse for having a general discussion of the difficulties, and strengthening the Prime Minister's resolve to resist proposals for increases. I understand that EA saw off Sir Keith Joseph (the "switch"). But there is clearly a risk that someone may seek to reopen student grants; and you could mention where you've got to on local authority capital. ← (minutes below)

(iii) The Markets. There is a copy of the note in your Cabinet folder below. You could also use this item, by raising



oil prices, to mention to the Prime Minister our concern about the scale of BNOB losses, and the need to move quickly to a formula for pricing. (We have been unable to arrange the Treasury meeting you wanted before next Monday.)

D L C PERETZ



FROM: DAVID PERETZ
DATE: 4 December 1984

CHANCELLOR

NO 10 BILATERAL

I think there are three main headings:-

(i) Autumn Statement Debate. This would be an opportunity to take stock with the Prime Minister of the main difficulties we are likely to face on Thursday. You could discuss student grants (depending where we have got to by then). The PM will, of course, face questions on this at Question Time on Thursday, before you speak.

This heading would also allow you to raise JMB (see separate folder) if you had decided to include an announcement of our review in your speech.

(ii) BT. Again, the PM will face questions in the House on Thursday. I have placed opposite a copy of the briefing material provided for you for Thursday's Debate.

(iii) Markets. The PM will know about the first guess £M3 figure. (Mrs Lomax's analyses are opposite.)

D L C PERETZ

CONFIDENTIAL



FROM: DAVID PERETZ
DATE: 13 December 1984

CHANCELLOR

No.10 BILATERAL: 14 DECEMBER

The items on the agenda are:-

(i) Johnson Matthey Bankers - the Prime Minister has agreed to an oral statement next Monday, but not so far otherwise responded to your minute of 10 December. ^(below) She may wish to discuss it further;

(ii) Argentina: Paris Club Rescheduling - the Prime Minister has not responded at all to your minute of ~~10~~ 7 December, and I understand she wishes to discuss it;

(iii) Court Appointments - as you know, I wrote to Robin Butler ~~last~~ ^(see below) night about this in the hope that the Prime Minister would raise any queries she had with you straightaway. Once the Prime Minister has approved them, they need to be put to the Palace, and the normal timetable is for the changes to be announced right at the beginning of January;

(iv) you could mention the recent IMF visit (speaking note below);

(v) I G A : Section 1(3) (see below.)

(vi) you might also compare notes about your discussions with Chairman Volcker (the Prime Minister saw him this evening), and her forthcoming visit to the US. This would give an opportunity - if



you wanted it - to raise the question of BNOC prices. Despite some prompting from No.10, Mr Walker has still not responded to your letter of 11 December - and, of course, time is fast running out to get a decision in time before the OPEC meeting. Since the PM will be in the US precisely at the time of the OPEC meeting, you might remind her of the criticism she is likely to face from her hosts, should we be seen to be holding up North Sea prices at the time.

D L C PERETZ



FROM: DAVID PERETZ

DATE: 9 January 1985

peretz

CHANCELLOR

NO.10 BILATERAL: 10 JANUARY

You only have half an hour, but it would be worth trying to get through the following:-

- (i) Financial Markets. A copy of the factual Cabinet brief is below.
- (ii) BNO prices, Saudi Arabia, etc. The meeting with Mr Walker follows on immediately from your bilateral (see separate folder). You will want to try to concert a line with the Prime Minister before Mr Walker arrives.
- (iii) 14th January Employment Seminar. There is a separate folder and brief for your meeting after Cabinet with Mr King. Andrew tells me the Prime Minister has not yet focussed on this seminar at all. I have told him that it seems sensible:-
 - (a) to delay a decision about whether to have a White Paper until we know what measures there to announce
 - (b) for all those measures involving expenditure, tax or NICs to be announced in the Budget, with a White Paper published on the same day (if Mr King preferred it, you could include in the Budget references to other measures such as abolition of wages councils). It would be well worth making these points direct to the Prime Minister before Monday.
- (iv) Infrastructure versus tax cuts. Andrew tells me the Prime Minister may well ask you for advice on how she should best put the arguments on this. I have placed below, as an aide memoire, the relevant section of the latest TWEB. And you have already the Oddling-Smee piece on employment effects of expenditure and taxation. You may also want to give her an account of the discussion at today's NEDC (which is likely to be in tomorrow's papers [Cassels was apparently briefing unhelpfully], and could come up at PM's questions tomorrow).



(v) Timing of discussions with the PM on Budget. Andrew tells me the Prime Minister is anxious to start talking to you about the Budget. The best bet, if you can persuade her to wait, would be a longish session during the weekend 26-27 January by which time you should have a better idea of how the forecast is coming out. You might be able to have an earlier discussion with her (should she press hard). But remember you will be away most of next week. Certainly you would want to avoid committing yourself to an earlier discussion until you know how Chevening has gone. The similar session last year was at No.11 year, so perhaps it is your turn to go to Chequers this year (Andrew suggested that is what the Prime Minister would prefer). You might suggest following that up with a series of submissions, followed in each case by a separate bilateral discussion. Andrew was thinking about the second and third weeks in February. Difficult to go firm at this stage, but you will presumably want at least one session with her before the Economic Cabinet on 14 February. (She is going to the US on 19 February.)

2. One other item that may come up (though I have not discussed it with Andrew) is the prospective revision to the employment statistics. (Mr King has talked to the PM today and it would come up in Cabinet.) Mr Folger's minute is below.

DLP

D L C PERETZ

P.S. JMB. Andrew has warned me that the PM may ask about the JMB implications of the forecast reported in last night's Standard. See the attached folder. You can say that you have a view that you have to go with this year, but that the Bank have told us that, on the basis of a first check, the story is inaccurate and exaggerated in several respects and it seems unlikely that significant additional losses for JMB are involved. (Redwood was apparently talking to the Queen/Hat earlier tonight & she may get this from him before you see her).

RL 9/11/55

pmp.



FROM: MRS R LOMAX
DATE: 1 February 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: SUNDAY 3 FEBRUARY 8 pm

The main purpose of this meeting is of course to discuss the Budget and related issues. You indicated that you wanted to cover the following ground:-

(i) Forecast: the medium term prospect is pretty grim, with no scope for tax cuts in 1987-88, even on assumptions about public expenditure which may well turn out to be too optimistic. Your view this afternoon was that we should aim for a PSBR of £7 billion in 1985-86 and leave a margin of safety. This suggests scope for tax cuts somewhere in the region of £1-1½ billion. [Relevant papers by Hugh Evans, Margaret Pearson and Alan Bailey are attached];

(ii) Budget measures: the simplified score-card by Tony Battishill reflects your comments earlier today. I noted two particular points you wanted to mention: that you were setting aside a significant sum for an employment package which might include two out of the following three - extended YTS, enlarged community programme, and a restructuring of employers' NICs; and the difficulty of doing anything beyond indexation on the higher rates this year now that you have more or less ruled out confining mortgage interest relief to the basic rate;



...
...
(iii) Reform of personal income tax: you wanted to float the idea of publishing a Green Paper later on this year which would outline a number of options for reforming personal tax once the existing system is fully computerised. Among the options, and possibly something that you might mention in this Budget, is fully transferable personal allowances. We spoke about the Inland Revenue's response to your request for a list of bull points. I attach the (wholly unsuitable) Revenue note, and an alternative note by me, culled from past papers. (Use the latter with caution!)

(iv) EMS: you wanted to mention the possibility of announcing an intention to join the exchange rate mechanism at Budget time. The next step might be a seminar chaired by the Prime Minister, possibly involving the Foreign Office. She will also want to consult Alan Walters. You may also want to mention your ideas about informal contacts with the Germans. I imagine that you may also want to think about a White Paper at some stage.

2. Other matters that I understand the Prime Minister is likely to raise briefly are:-

(i) her relations with the Governor. As you know, she is planning to hold bi-monthly bilaterals with him. We are assured by No.10 that we would be fully debriefed;



(ii) Senior Staff moves - Inland Revenue, No.10 private office, etc, Peter Middleton tells me that Robert Armstrong's minute has come out very well.

3. You may also like to mention that you have found a replacement for Michael Portillo. Andrew has not revealed the identity on the successful candidate - but as you know, he and Howard are old friends. (Howard worked for Andrew in HF3).

RL.

RACHEL LOMAX

ppp

FROM: MRS R LOMAX
 DATE: 18 February 1985

CHANCELLOR

**BILATERAL WITH PRIME MINISTER:
 TUESDAY 19 FEBRUARY AT 10.30AM**

You have only half an hour tomorrow. There seem to be two main topics for discussion:-

(i) the Budget and Public Expenditure.

- (You have the overview folder + MTFs papers for reference)*
- what impression did you take away from the Cabinet discussion.
 - Progress on constructing ^{an} employment package.

[The Chief Secretary's appearance at TCSC today may come up. Judging by the reports I have had the Chief Secretary's shock horror announcement seems to have gone almost unnoticed. It came right at the end of the session and few people either on the Committee or from the press seemed to have picked it up. But we will be able to judge better from tomorrow's press.]

(ii) the Prime Minister's visit to the United States. How hard should she press on concerted intervention etc. *Your minute is how today is attached.*

R.L.

RACHEL LOMAX



c/

Andrew has suggested the following as topics for tomorrow's bilateral:

- (i) Budget — particularly your minute on the indirect taxes of 26 February
- (ii) Markets — though possibly not in detail
- (iii) Gas prices / privatisation — you discussed with FST this morning
- (iv) MISC III — how do we proceed after the £2bn bondshell.

MOM

27/2

P.S. Of course, bond washing is likely to come up too. At the moment, all we have is your minute to the PM of tonight. We'll try to ensure you get copies of all the other material by tomorrow am.

SECRET



FROM: MRS LOMAX
DATE: 26 March 1985

gmsp.

CHANCELLOR

BILATERAL WITH PRIME MINISTER ON WEDNESDAY 27th MARCH

You wanted to raise the following issues:-

(i) MISC 111 - the Chief Secretary has minuted the Prime Minister (attached) urging that the child support options discussed at Monday's meeting and the possibility of not uprating the unpledged benefits should be reopened at the meeting on Monday, 1 April. While you see little mileage in the child benefit options, at this stage, you want to impress on the Prime Minister the need to secure further savings from the review over and above the £¾ billion already agreed. This may involve reopening some issues already settled, notably housing benefit. The existing timetable for the publication of Mr Fowler's Green Paper is already looking very tight; issues of substance apart, you are very concerned to allow adequate time to get the draft right. You are also inclined to complain about Mr Fowler's recent leaks (eg to the Financial Times and the Economist);

(ii) Gas Prices - there has been no formal response to the Chief Secretary's minute of 22 February (attached); you want to persuade the Prime Minister that the prospect of BGC privatisation makes it more not less urgent to get gas pricing right in the next survey;

(iii) Civil Service pay - you are minuting the Prime Minister tonight proposing an improved offer to pre-empt

*Papers ...
with
you tonight*

*I'll send you a copy
of the head minute in
the morning*



industrial action by the unions. Peter Kemp says that there has been no objection from other departments at official level. You have asked colleagues to respond by tomorrow evening. You obviously need to know whether the Prime Minister is content;

(iv) Local Authorities Seminar at Chequers - you want to impress on the Prime Minister the importance of having a Treasury Minister present - preferably the Chief Secretary. (I will try to get hold of what papers there are in the morning);

(v) NEDC - you have now abandoned the idea of an NEDC dinner. The question ~~now is~~ whether the Prime Minister wants to chair a meeting of the Council herself.

2. Robin Butler tells me that the Prime Minister wants to raise the question of Inland Revenue action in apportioning gifts by close companies to charities among their shareholders - we suspect, although we do not know for certain, that she has been lobbied by Sir Emmanuel Kaye. (Your own view is that Sir Emmanuel Kaye has been behaving outrageously!).

RL

RACHEL LOMAX

I am also attaching the papers on Scottish rates - in case the subject comes up. (Chester says Mr. Robin Butler supported it, but it is much on the PM's mind)



ps

FROM: MRS R LOMAX

DATE: 24 April 1985

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: THURSDAY 25 APRIL

The main topic of conversation is likely to be the Fowler reviews, in particular the follow up to your minute to the Prime Minister on Tuesday evening. Following your conversation with Norman Fowler tonight there is to be a meeting of a small group chaired by the Prime Minister to discuss four options: the replacement of SERPS by a compulsory scheme, your 2 options (no replacement, or deferment) and modified SERPS. The intention is to put a note containing agreed figures to the Prime Minister on Friday evening. If all goes well you should be able to put an agreed proposition to Cabinet next Thursday. (The earlier papers of modified SERPS are enclosed; I will let you have the additional numbers you asked for in the morning.)

2. Andrew and I ^{are} agreed that it is not too soon for you to touch on the subject of Local Government finance with the Prime Minister. You will need a longer session with her next week, but work is already starting on her speech for Perth. You may also want to touch on the subject of Scottish rates before you reply to Mr Younger. You will see from the attached folder that officials ^{are advising} ~~applying~~ a tough line; but the submission was clearly written before this afternoons meeting, when you indicated that you would like to use this to show the Prime Minister that there are ways of coping with rate revaluation.

3. Other subjects which may come up:-

(i) National Insurance contributions: You might like to glance at the letter from the Department of Employment (which was not copied to us) as well as our own reply.



(ii) Sir Emmanuel Kaye: I replied to Robin Butler's letter earlier this week. If the Prime Minister is content with the advice she will want to write to him; and you owe him a letter.

(iii) Daily Express article on Keith: The Prime Minister's eye was caught by the enclosed article on the Keith recommendations on VAT. Customs have provided some defensive material. (Andrew may already have been able to reassure the Prime Minister on this point).

4. You are writing to the Prime Minister to report your impression of American policy following your Washington trip. With the Bonn Summit in mind she may want to discuss.

RACHEL LOMAX

*There is an outside chance that he PM may mention his
Melhor's initiative on drugs: pps at the back of your folder.
(There is a Customs copy, & possibly public expenditure)*



FROM: MRS R LOMAX
DATE: 12 April 1985

Jan

CHANCELLOR

BILATERAL WITH PM: MONDAY 15 APRIL

You and the Prime Minister will no doubt want to swap travel stories. That apart, No.10 had nothing to suggest.

2. You wanted to raise the Fowler reviews in the light of your meeting with Mr Fowler before Easter (minutes attached). The key question for us now is whether we should be content or whether we should push for further savings, running the risk that we may lose some or all of what we have gained so far.* You will want to gauge the Prime Minister's reaction to the options on housing benefit and the longer term future of child benefit which you discussed with Mr Fowler. You may also want to give her your preliminary reactions to Mr Fowler's latest draft of his Green Paper which arrived on Friday.

3. The Cabinet discussion is likely now to be on 25 April, shortly after your return from Washington. I have also pencilled in bilaterals with Lord Whitelaw, Mr Tebbit and Mr Brittan for the preceding Tuesday as agreed, in case you want to lobby them.

4. You will also want to bring the Prime Minister up to date on the progress of current Civil Service pay negotiations. So far we have had no reaction from other departments to the Treasury paper which was circulated under cover of my letter to Robin Butler on Friday morning. It would be surprising if there are no objections from DHSS. The paper is for discussion at a meeting in MISC 66 at 9.30am on Tuesday, just before you go off to Washington. When you discussed this with Peter Kemp before you left for Paris, you were agreed that a new offer should be made as quickly as possible.

RL.

** Off was clearly how we have reached the end of the road - see Maana's brief.*

RACHEL LOMAX



FROM: RACHEL LOMAX
DATE: 30 April 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 1 MAY

The main subject of conversation is likely to be the Fowler Reviews. You will need to report on progress at reaching a compromise with the Chief Whip and Mr Tebbit earlier in the day. I will let you have copies of the various papers Peter is preparing before the meeting.

2. The other natural topic is Bonn. Andrew has also warned me that the Prime Minister will raise the really dreadful first guess for this month's money numbers. If I get any further information about the provisionals during the course of the day I will of course pass it on.

3. We agreed that it might be better to steer clear of local government finance. I have put the briefing prepared by Alex Allan in your folder for the Scottish Rates meeting so that you can use that opportunity to make some general points about the need for caution in making public pronouncements (eg at the Scottish Conference) about the general issue of rates.

RL

RACHEL LOMAX

- ① P.S. Margaret says you also want to mention the possibility of Prince Charles succeeding Lord Crawford as 1st Viscount Gortale Commissioner
- ② I will check with Robin in the morning about the ^{honours} ~~appointments~~ letters. (Andrew thinks they are in the process of going out - some have + some haven't. Robin keeps better hours than the auditors!)
You wanted to raise Harvey Jones.



FROM: MRS R LOMAX

DATE: 15 May 1985

py

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: THURSDAY 16 MAY

This week's bilateral is in two parts.

2. The first part, with the Governor, is primarily to discuss disclosure and gilts. You discussed this briefly with the Prime Minister last week. Your subsequent minute to her recommends taking early action to amend the prospectus, but outlines the Governor's reservations. Since then we have heard that the Attorney General has approved the wording in the draft press notice, notes to editors and draft clause for the prospectus attached to your minute. As you know, the problem with the Governor's position is that he ignores ^{Peddie's} ~~Pattie's~~ advice which requires an announcement before the point of decision is reached, whilst not explicitly saying that he would reject it when it came to the point. The changes to CGT we now have in mind have blown a hole in his argument that a change in the prospectus would be otiose. So the purpose of the meeting with the Prime Minister is to let him have his say and get him to give in gracefully.

3. Whilst the Governor is there, the Prime Minister may also raise two other issues that concern the Bank:-

(i) Foreign Currency Borrowing on which you minuted the Prime Minister with your proposal for HMG own name borrowing. (She has read the minute but not reacted.)

(ii) JMB where you could look ahead to the publication of the Bank's report on JMB (in an annex to the Governor's annual report) and the report of the Banking Supervision Group, and your associated statement - all of which we hope will take place sometime in early June.

4. At that point the Governor should leave. There are two further issues for you to discuss with the Prime Minister:-

page*papers just arrived*

The note by A Walters is a good read: John Redwood has a host of questions for you at the end.

*Re
4/6*

CHANCELLOR

FROM MRS R LOMAX
DATE: 4 June 1985

BILATERAL WITH PRIME MINISTER: WEDNESDAY, 5 JUNE

Andrew has warned me that the Prime Minister will want to talk to you about monetary policy. Her interest has been provoked by Greenwell's recent bulletin and the attached note from John Redwood (which has been shown to me on a personal basis by Andrew). As you know, Alan Walters is also over and will be seeing the Prime Minister in the morning. Peter saw him tonight and has promised a note in the morning. (If you get drawn into discussion of EMS, as an alternative to sterling M3, you might like to recall that Sir Geoffrey Howe has asked to see you on Monday about EMS; my information is that the Foreign Office have it very much in mind at the moment, but Sir Geoffrey has not yet raised it with the Prime Minister, or at least not in front of officials).

2. The Prime Minister may also want to talk about the reception of the Fowler Green Paper. The main line of Opposition attack seems to have been the lack of numbers; as you know Treasury officials have some sympathy for this! You may want to point out that we cannot do without numbers much beyond September - for public purposes; and that some further hard numerical work will be needed at official level well before then.

3. You are also being urged to raise the long term unemployment study. We have an internal meeting on this tomorrow afternoon. Even though the Prime Minister does not appear to be contemplating large additional expenditure, these exercises can easily get out of hand. (Incidentally, Terry may have told you that

Andrew Knight of The Economist seemed remarkably well informed about the present exercise when Terry was round there for lunch last week.)

4. You may want to mention the BL press cutting (below).

5. It seems sensible to hold over survey prospects for another couple of weeks; the picture is changing, and we have an internal meeting next week to discuss the important question of how to play the Gas card.

RL.

RACHEL LOMAX



FROM: RACHEL LOMAX

DATE: 11 June 1985

RL

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 12 JUNE

There are only two topics for discussion:-

(i) JMB and report of Banking Supervision Group: You will want to warn the Prime Minister that the likely date of your statement is now 20 June (rather than 18 June). You may also want to mention that the Governor is thinking of expanding and strengthening the Bank's supervisors department. Otherwise the main points are covered in your own minute to the Prime Minister and the attached check list by Martin Hall.

(ii) Lord Hanson: Today's press was full of both Lord Hanson and the BP cash mountain. Peter Middleton's minute summarises the basic political judgement. There is also the risk that a bid would delay disposal of our own residual shareholdings. But the main risk, to my mind, is that it would take some of the political gloss of the privatisation programme when it has still some way to run.

RL

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 17 June 1985

RL

CHANCELLOR

BILATERAL WITH PRIME MINISTER: TUESDAY 18 JUNE

The Chief Secretary is seeing the Prime Minister separately at noon about his public expenditure priorities presentation (you will see that the Prime Minister has rejected the idea of a further circular letter from Andrew; instead she plans to set out the guidelines for the discussion in her opening remarks to the meeting).

2. Topics for your bilateral are:-

(i) survey prospects: the Chief Secretary will stay for this item. Speaking note within;

(ii) late payment of tax: ^{Andrew} you minuted ^{the Prime} ~~the~~ Minister a few weeks ago in response to ^{the PM's} her worries about the impact on small businesses of the Keith Committee recommendations about VAT. Andrew has not suggested that she is unhappy with ^{the} your minute. If the moment seems right, you could use the time to make some progress on monetary policy instead (see Brian Griffiths' not entirely helpful contribution, which arrived today). But you are not committed to doing this.

RL

RACHEL LOMAX

PS. I am also enclosing you redraft of your Jan's statement, in case the PM has had a chance to read it, & has further comments. (Work check with AT in the morning)

pm



FROM: MRS R LOMAX
DATE: 25 June 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 26 JUNE

Assuming that you have had enough of monetary policy [and local authority targets] for the time being, the topics for tomorrow seem to be:-

*we spoke - I'll
get a speaking
note in
the
morning*

- (i) Top Salaries Review Board Report - note attached by Peter Kemp.
- (ii) CGT and Gilts - the proposal is to make an announcement early next week.* (See Bryce's submission in the blue folder enclosed.) You will probably want to minute the Prime Minister later in the week, but you might like to take the opportunity to briefly outline the problem. HF have promised a speaking note in the morning.
- (iii) Late Payment of Tax - the Prime Minister has not yet reacted to the note I sent over on 10 June. But Redwood has shown some signs of interest in Keith in the last week, so it may be worth a brief discussion now.

RL

RACHEL LOMAX

* Joseph's Challenge's minute on loans, Macroeconomic Revolution (25/2 - in box)
 suggests that there is an outside chance that the public consciousness may have
 to be brought forward by the Opposition press for details from the business newspapers
 after Thursday's Business Statement. Another reason for mentioning now.



FROM: MRS R LOMAX
DATE: 2 July 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 3 JULY

You have fifteen minutes with the Prime Minister before the Chief Secretary joins you at 5.45pm.

2. You wanted to mention:-

(i) Mr Biffen's recent lobby briefing. You will also want to emphasise to the Prime Minister the importance of not opening up the discussion of how the fiscal adjustment should be used at this stage, including the choice between raising tax thresholds and cutting the basic rate of income tax.

(ii) CGT and Gilts: you will want to tell the Prime Minister how today's announcement went. We await tomorrow's press; although the markets closed for half an hour today on the announcement, there has been no discernible impact on prices.

3. The Prime Minister may also raise:-

(i) Intervention and foreign currency borrowing: I wrote to Andrew Turnbull today (letter enclosed). It is just possible that the Prime Minister may have comments.

(ii) Unitary Tax: I also wrote to Charles Powell. You may want to reinforce the message.

4. I have sent Andrew Turnbull drafts of your paper on economic prospects, the Chief Secretary's paper on the Survey, and the draft paper on nationalised industries IFR for E(A). The Chief Secretary's paper raises the trickiest issues:-



(i) Asset sales: you have had to make a delicate tactical choice. There is a risk that the prospect of higher asset sales will undermine public expenditure discipline. But without them we have no hope of sticking to the baseline; and colleagues are fully aware that there will be higher asset sales. Trying to fudge the issue, by not providing any figures, may simply make matters worse. So - unusually - we have revised up ^{the} a special sales of assets programme. We hope to stick to these figures through the Star Chamber discussions.

(ii) Manpower: paragraph 20 of the Chief Secretary's paper is a response to the remit from the Prime Minister's meeting on long term unemployment on 11 June. You have not yet discussed with the Prime Minister why you think it wise to conduct these discussions in the context of the Survey (though I have mentioned it to Andrew).

(iii) The Reserve: see Michael Scholar's minute below.

5 You may also want to briefly discuss the timing of the E(A) discussion on nationalised industries. The choice is between 10 and 17 July. The Chief Secretary's preference - for personal reasons - is for 17 July; you have not expressed very strong views yourself. If the later date is chosen, you might like to suggest to the Prime Minister that it would be better to delay the circulation of the paper until after Cabinet.

RL.

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 9 July 1985

pp

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 10 JULY 1985

The main topic is, of course, public expenditure. The Prime Minister is likely to want to discuss:-

- (i) Presentation: how the Government can take credit for the good things it has done on public expenditure without undermining its reputation for fiscal rectitude. What sort of language should you be using?
- (ii) Public Expenditure Cabinet: the handling of the meeting, and the press afterwards. *She* will have seen a copy of my letter to Andrew, proposing a line to take for press offices. Michael Scholar will be letting you have a postcard on the meeting itself in the morning.

2. If you have time, you also wanted to raise the question of the fiscal adjustment in the Autumn Statement. You were planning to mention to the 1922 Executive Committee on Thursday; the Treasury's response to the TCSC could be published next week or the week after.

Rh.

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 29 August 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: FRIDAY 30 AUGUST 1985

This is a general tour d'horizon. You wanted to cover in particular:-

(i) the current state of the economy: on which Peter Middleton has done some notes, the main point being that the outlook, especially for inflation, is looking better. The markets are reasonably quiet. The Prime Minister will have seen the August unemployment figures, which are reasonably encouraging.

(ii) the policy framework

- following the Prime Minister's monetary seminars earlier this summer, you'll want to clarify the presentation of policy, especially monetary policy. As agreed in July, the natural opportunity is the Mansion House Speech (17 October).

- the big question is whether the time is now right for us to join the EMS. Peter has provided a speaking note. You also have a draft of Geoff Littler's "nuts and bolts" paper, and a record of the last seminar at No 10 (13 February). The Prime Minister will be aware that market conditions have not been right for us to undertake the major foreign currency borrowing programme she agreed in May.

2. There are two particular issues on which you'll want to report progress:-

(i) JMB (and Ansbacher). I attach a short note, reflecting your recent discussions with the Attorney General and the Governor.



(ii) Green Paper on Personal Tax. You hope to be able to show the Prime Minister a draft by mid-September.

3. Honours. You also wanted to raise the question of awarding two City Ks this year.

4. I am told that the Prime Minister may raise:-

(i) the Chief Secretary's minute on Scotland and Northern Ireland in the forthcoming survey (which she has just seen).

(ii) Mr Sandberg's proposed visit, on which you may have spoken to Nigel Wicks. *(Howard Young seems to be egging Mr Sandberg on; but the PM should still refuse to see him at the moment)*

R.L.

RACHEL LOMAX

plus



FROM: MRS R LOMAX
DATE: 13 September 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: MONDAY 16 SEPTEMBER

You wanted to discuss:-

- (i) **running costs, manpower and the pay factor**, for which you have an aide memoire from Michael Scholar. The Chief Secretary is looking at it over the weekend and will let us have any comments first thing on Monday morning. You may wish to say more about the decision to drop the pay factor, so I have included the brief for your conversation with Mr Higgins the other night.
- (ii) **the future of the coal industry**
- (iii) **the reform of rates**. The ELF meeting is on 23 September. You wanted to say that the gainers and losers analysis is bound to come out eg via the IFS; and trail your radical German option.
- (iv) **G5**. The only hard news is the prospect of a trip to New York.
- (v) **EMS** - if the mood is right.

RACHEL LOMAX

plus **Teachers Pay** - in view of the disappointing DES response on publicity

(You mention on **South Africa** to below, in case the PM refers)



FROM: MRS LOMAX
DATE: 11 October 1985

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: SUNDAY 13 OCTOBER

I have not revealed that you want to talk about the Green Paper: David Norgrove was even talking about not being there (though he will be, if he has any sense). Red herring topics I mentioned as possibilities are

- the party conference
- remit for the Star Chamber
- Mr Fowler's latest proposals for MISC 111 (which you have in a separate meeting folder for Monday)
- ERM seminar, ministerial attendance.

2. Any of these would do for openers; and of course you won't forget to wish the Prime Minister happy birthday!

3. The main purpose is of course to get the Green Paper back on the agenda and kill all this wild talk about E Committee and Cabinet, at least for the time being. Michael has provided a speaking note. In addition you have separate briefing on

- the cost of introducing transferable allowances
- the characteristics of the "losers" (ie those who don't stand to gain). Plus an extract from a 1983 paper on the same subject which seems to have lodged in the Prime Minister's mind
- child tax allowances
- the effect of transferable allowances on married women's work incentives.



4. By way of **background**, I have put together separate folders on:

- the sorry tale of Sir Geoffrey Howe's Green Paper
- the history of your own Green Paper to date, including all the key texts.

5. Your aim of course is to get the Prime Minister to agree to **read the Green Paper thoroughly while she is on her travels**. I attach in a separate folder the **draft** that we sent over to her.

6. We think you might also raise the **distributional analysis of social security and local government finance**. Michael and I have strenuously resisted all requests for side copies from No.10 and the Policy Unit. **But we must send something over on Monday**. If directly challenged on this exercise, the Prime Minister will no doubt stick up for her ~~supporters~~ ^{subordinates}. Nonetheless, your aim is to **kill it dead** for the time being and to ensure that the work we have already done is **not used against us** in MISC 111, the Star Chamber, or wherever.

RL.

RACHEL LOMAX

RJR

LOMAX
→ CH/EX
25/10

FROM: MRS LOMAX
DATE: 25 October 1985

CHANCELLOR**BILATERAL WITH PRIME MINISTER: MONDAY 28 OCTOBER AT 2.30pm**

Subjects you want to raise:-

(i) Fiscal adjustment and the Autumn Statement - you'll find a draft minute to the Prime Minister and revised briefing elsewhere in your box. The strong advice from Peter and Michael is that we should get both over to the Prime Minister early on Monday, in advance of your bilateral;

(ii) TSRB - you wanted to talk the Prime Minister through your proposal, prior to circulating your minute to colleagues;

(iii) Banking Supervision - there has been no feedback from No.10 on your paper (other than from Griffiths). You'll want to test the temperature; and inter alia you may want to mention some possible names for a banking commission. Peter has already suggested Douglas Morpeth, Sydney Procter and Derek Van der weyer; he may have some more ideas when he sees you on Monday;

(iv) Honours - both Kit McMahon and Ian Fraser are in (though Peter achieved the latter only with difficulty). There was a strong feeling that Kit is doubly deserving precisely because he is leaving. I imagine the Governor will take the same view. You could revert to your original plan of pressing the Prime Minister to consider two City Ks this year. (You'll find a fuller note on honours elsewhere in your box).



2. Subjects the Prime Minister may raise:-

(i) Economic assumptions for public expenditure - I don't think the Prime Minister has reacted to this herself. But David Norgrove is clearly troubled by the departure from a flat public expenditure line. (I and others have been over the reasons for this with him in some detail). Just in case, Andrew Turnbull has provided a defensive speaking note;

(ii) Green Paper on Personal Tax - I am told the Prime Minister's copy came back marked "Read" but with few other annotations. If she raises the subject, you could suggest a longer chat, and promise a minute in advance. (Michael has done a draft);

(iii) Other matters - David suggested tin and South Africa. There'll be a further note on the former from DTI, probably early on Monday morning.

R.L.

RACHEL LOMAX

PM Bilateral



Ch

Rachel suggested calling off your bilateral with the PM. However, Nigel Wicks rang back to say the PM wd very much like a half-hour general chat. He thought she wd be interested in the reaction to the Autumn Statement, both in the Markets and more generally. (You might also touch on reception of her Guildhall Speech on Monday.)

Nigel did not see any need to raise either ERM or the Green Paper.

AWK
13/11

PM's cabinet



prop.

Ch.

This may well be a proper
meeting to brief the PM
for Cabinet - possibly with
Bhambhani & conceivably led
Whitehead (I think that
would be better in the Tuesday
MOR, pre-Cabinet, but we'll
hear one way or another in
the morning).

Even if it is a PTX meeting,
you could still raise the
absurdity of the led Young
meeting (indeed you'll have to,
as it will otherwise be too late).

Rich Monck's covering note supposes

some material - see:

para 4 especially.

You're a bullet, you
wanted to raise CRM -
especially the cost for
next week. I'm told to work
with the team, but you'll want
to compare. How many
be entirely with the
meeting?

You may have had a little
hangover - she has a cold.

Rh

5/11



Ch.

Mr Bilateral

You wanted to raise the

cast for Wednesday.

Speakers - yester, Abasters

or Blithers are coming

You'll want Terry, Eddie

(possibly Peter). My

information is that they

are not, but worth confirming

if this is a purely ministerial

affair - more to be said

for the Mr Westrup here

personal entourage
to the absolute maximum -
i.e. only Nigel from the
Private Office, the one
or two from the History Unit.

On the substance - you
have her comments on the
GMS Q+A, which you
could go over briefly with
Tary & Peter this afternoon.

You'll see her speech
below - plus some official
AHT points Tony has
passed on. Rk. 11/11



FROM: MRS R LOMAX
DATE: 19 November 1985

psp

CHANCELLOR

BILATERAL WITH PRIME MINISTER: 20 NOVEMBER

This slot has now been cut to $\frac{1}{2}$ hour by No 10, because of pressures on the Prime Minister's diary. If you do want to raise **ERM**, I shall press to get some of the missing $\frac{1}{2}$ hour reinstated.

2. David says the PM is likely to raise:-

(i) Response to Autumn Statement and the handling of the run-up to the Budget, in the light of that response. (You could mention **her Guildhall speech**).

(ii) **Keith**. Your minute, and the Policy Unit brief on it are below, plus a comment from Peter Cropper.

(iii) Fraud in the City, following the Goodison letter (and David Steel's letter, reported in today's press)*. Strictly, I think this is really for DTI, but I'm told you were instrumental in setting up FIG, so we do have some involvement. This is apparently much on the PM's mind, in a general sort of way.

RL.

RACHEL LOMAX

**we have not been able to find all the correspondence tonight - it will follow in the morning
JAWK*



C. / 2 items
for PM's questions
- OK?

Phil,

Rs 26/11

No. 10 BRIEFING

- ON: 1) Pension Funds*
- 2) Green Paper on Personal Taxation

Required by No. 10 for
Questions today - ASAP

But
 2. Mr. Harro is, I think, mistaken: 10 LBS
 scheme implies a ~~last~~ reduction of
 surplus tax occurs under
 present law. But
 award Miss paper!
 Colin
 26/11

* See also note below
on questions you
raised yesterday
Amk



CHANCELLOR

FROM R LOMAX

DATE November 1985

BILATERAL WITH PRIME MINISTER: WEDNESDAY 27 NOVEMBER

You only have half an hour. You wanted to raise the following:

- i. **Building Societies Bill:** conveyancing clauses. David Norgrove tells me the Prime Minister has seen my minute of the 8 November and he thinks that she realises that policy was decided by H Committee in May. Unless you have a particular thought of your own ^{to} add, there is probably no need for you to raise this; I can get David to write confirming that the Prime Minister is content with the approach outlined in my letter.
- ii. **Banking White Paper:** see Martin Hall's note on this. There may be something to add in the light of your meeting tomorrow morning.
- iii. **Monetary amendment to the Treaty of Rome:** The Prime Minister should have seen my letter to Charles Powell of today. She will have seen **Kole** by the time you meet. *(See also enclosed minute from Ribbons)*
- iv. **Gas privatisation:** Note the suggestion in David Norgrove's letter to PS/Peter Walker that there may have to be amendments to the Bill at Committee stage if there is criticism in the House ^{of} ~~that~~ the arrangements proposed for the contract market.

There is nothing particular that the Prime Minister wishes to raise, although judging from what David Norgrove says, the EMS seminar has left a legacy of general unease about economic developments and economic policy. You may want to discuss with Peter Middleton how to handle this. We plan to return to the charge on the personal tax Green Paper next week, and ^{on the basis of} raise this in a minute which we probably ought to send before the weekend.

RL.

RACHEL LOMAX

PS. Drugs Trafficking: - we now have a reply from Douglas Hurd (standing firm) & he is to see the PM tomorrow evening. Tony knows you'll want to raise this with the PM. He'll send over the papers - with a note of his own - in the morning.

② Personal Pensions You could tell the PM that you have reached an agreement with Andrew & others & will be letting her have a minute - before Cabinet, if possible.

SECRET

FROM: RACHEL LOMAX
 DATE: 2 DECEMBER 1985



SIR PETER MIDDLETON

BILATERAL WITH THE CHANCELLOR: MONDAY 2 DECEMBER AT 2.45PM

1. Tony
 2. Pugh
 3. Delstone
 & Hugel
 or purp.

The following points arose at your meeting with the Chancellor this afternoon:-

(i) Liverpool. You said that Robin Butler was looking in more detail at what had gone wrong last Thursday.

(ii) Banking White paper: you promised the Chancellor your draft of the Ministerial foreword this evening.

(iii) JMB the Chancellor said he had asked Howard Davies to consider what might be done to regain some initiative. JMB would inevitably come up when the Chancellor makes a statement about the Banking White paper in the week beginning 16 December; and in the Consolidated Fund Bill debate. The Chancellor thought it would be useful for the Economic Secretary to take this latter opportunity to get some basic chronology read into Hansard.

(iv) Financial Services Bill: you both agreed that the load on HFl resources was currently very heavy and there was a risk that Treasury input into the Financial Services Bill was suffering. The Chancellor commented that the Bank ought to be making a substantial contribution.

(v) NEDC handout: the Chancellor thanked you for your draft which he proposes to use with only very minor amendments.

(vi) Chevening the Chancellor was broadly content with the agenda submitted under cover of your note of 29 November. However he thought that monetary issues should be covered during the discussion of Sir Terence Burns' paper on the MTFs; more detailed consideration of monetary



targets would be needed, but Chevening was not the place for that. He also saw a case for discussing tax measures to stimulate enterprise and employment during the session on employment issues. (He mentioned that he would be writing a strong letter to Lord Young about Mr Trippier's remarks in the Sunday Times, copied to the Prime Minister). The Chancellor also thought that it would be useful to allow a slot for the Green paper. If there was any time left over from tax issues, he thought it could usefully be devoted to a preliminary discussion of presentation. You promised to commission a brief note on this.

(vii) Capital expenditure and the MTFs: the Chancellor agreed to hold a meeting before Christmas, if only for reasons of staff morale. In so far as the Odling-Smee /Riley analysis was relevant to fiscal policy over the MTFs period, it should be reflected in Sir Terence Burns' paper for Chevening.

(viii) Disclosure: the Chancellor noted that it was proposed to give the police access to the Inland Revenue files of people suspected of drug offences subject to an order from a Circuit Judge. He asked you to consider the case for extending similar treatment to people suspected of financial fraud. You agreed that access would need to be two-way, probably subject to authorisation from a Circuit Judge in both directions; and that the problem was not simply one for banks - it affected the whole financial services area.

(ix) Price Waterhouse report: you told the Chancellor this was now coming to a head. The Bank's latest view was that even the expurgated version would need to be a Parliamentary paper. The Chancellor observed that there could be no question of giving the Bank an indemnity.



(x) Budget purdah: you promised to send the Chancellor a minute outlining arrangements for Budget security and purdah. The Chancellor said he thought that strict purdah should begin for Ministers at the end of January; but the Chief Secretary should have an extension until the end of the first week in February, given the likely timing of the public expenditure White Paper. He agreed that Budget security arrangements should generally come into force once the date of the Budget had been announced, shortly after Chevening.

(xi) Autumn Statement debate: the Chancellor told you that the debate had now been confirmed for 12 December. You agreed to let him have any thoughts for his speech.

(xii) Nimrod/GEC: you told the Chancellor that this has taken a turn for the worse and that you would be minuting him later this week.

(xiii) Christmas leave: it was agreed that this office would draw up a Ministerial duty roster for the Christmas period.

(xiiii) Senior appointments: the Chancellor said he would ask Sir Lawrence Airey in for a drink before Christmas (to which you would be invited). You discussed possible replacements for Mr Gilbert at DNS.

(xv) Monetary situation and targets: you discussed the case for an interest rate change based on M0. On the monetary framework, you told the Chancellor that there was a note coming forward; he agreed that we should have a preliminary internal discussion before talking to the Bank. He hoped the paper would fully discuss two issues:

SECRET



if we do have a sterling M3 target what should it be, and if we do not, how should that be played. He stressed that, while he was prepared to contemplate redefining sterling M3 (eg to include the Building Societies) he was not prepared to consider introducing a new target aggregate. Nevertheless he hoped that the paper would discuss the use that might be made of composite (ie average) measures of money, and (especially in presentation) money GDP.

RL.

RACHEL LOMAX



FROM: MRS R LOMAX

DATE: 3 December 1985

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER, WEDNESDAY 4 DECEMBER AT 3.00 PM

The Prime Minister may still be full of the **European Council**. I gather that she more or less signed up to the package of monetary amendments you saw earlier today. We will let you have a telegram as soon as we get it.

2. The main purpose of the meeting from your point of view is to discuss the **Green Paper**. As well as your minute to the Prime Minister of today I attached the snippets of briefing prepared for your last bilateral. Elsewhere in your box is a full copy of the Green Paper as it went to the Prime Minister. The revised draft of chapter 3 is in a separate folder at the back. My own feeling is that you should **stick to the high ground mapped out in your minute**, leaving the details on which there may be more disagreement - for a future session. The key thing this time is to **whip up some enthusiasm for the broad principle** of publishing the Green Paper.

3. Other topics you might want to cover:-

(i) **Personal pensions and the public services:** The Prime Minister seems to have **misunderstood** your proposal. She thinks it is tantamount to treating public sector employees **less favourably** than those employed in the private sector.

(ii) **Banking Supervision White Paper:** The Prime Minister only read chapter 1 over the weekend. It seems unlikely that she will have had time to go through it thoroughly since then. She raised a **query** about the proposal to institute a new



general criminal offence, to which I hope to have an answer in the morning. It would be useful if we could show her a draft of the foreword before your bilateral but that may not be possible. If she is going to have detailed comments, we must have them by Thursday to meet our printing deadline.

RL

RACHEL LOMAX



FROM: MRS R LOMAX

DATE: 10 December 1985

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 11 DECEMBER AT 6.00PM

Subjects you wanted to raise with the Prime Minister:-

(i) Markets and Monetary Policy - We have a meeting with the Bank at 3.00 pm tomorrow afternoon.

(ii) Tax cuts and Cabinet - You might tell the Prime Minister that you plan to warn colleagues about being too bullish on the prospect for tax cuts. (A recent example of what not to do was contained in last weeks Listener - cutting enclosed.)

(iii) Group on Personal Tax Green Paper - You wanted to discuss the female component of the team. Emma Nicholson - perhaps the most obvious woman for the Prime Minister to sound out - is anyhow coming to see her before Christmas (December 18). Your present thinking is that the Ministerial team might comprise - Tebbit, Lord Whitelaw, Wakeham, Fowler, and possibly Lord Young (and the FST?)

(iv) Teachers Pay - The Prime Minister is holding a meeting on Wednesday 18 December, which both you and the Chief Secretary plan to attend.

RL.

RACHEL LOMAX

I'm told the PM may raise oil - see note on folder on latest OPEC developments.



1. I gather from the fax that the meeting is after 11.

CHANCELLOR

FROM R LOMAX
DATE 17 December 1985

FRIDAY 20

BILATERAL WITH PRIME MINISTER: ~~WEDNESDAY 18~~ DECEMBER

You only have ~~half an hour~~ *1/4 hr.*

Topics you may want to discuss:-

Let's not give you the answers to your questions about how we'll steer the course of the day.

- i. **Court appointments:** the clear advice from No. 10 is that we should wait until after your bilateral before sending a formal minute. Inspired by Brian Griffiths, the Prime Minister is still concerned to beef up the economic expertise on the Court. Of the names suggested to her by Griffiths, the only one to have survived is Christopher Foster. Leutwiler is apparently still on her mind.
- ii. **Markets:** you might like a word after last week's excitement.
- iii. **Westlands:** possibly.
- iv. **Postmortem on tomorrow's meetings:** Hongkong and Shanghai, Teachers' pay and the Fraud meeting all come before your bilateral. Have you sounded her out about your idea of a special enquiry into standards of behaviour in the City?

P.S. Too early for Prime Waterhouse, I think - very enough
Rh.
RACHEL LOMAX
Have

SECRET



FROM: MRS R LOMAX
DATE: 6 JANUARY 1985

CHANCELLOR OF THE EXCHEQUER

BILATERAL WITH THE PRIME MINISTER: TUESDAY 7 JANUARY

You have two hours. Predicticably Nigel Wicks is not at all happy about excluding a Private Secretary, but he knows your wishes.

2. Three main topics:

- i. Shape of the Budget pre Chevening.
- ii. The Green Paper on Personal Tax.
- iii. EMS.

3. You may also want to bring the Prime Minister up-to-date on markets - though our meeting with the Bank is not until Wednesday morning, and it will be too early to judge the impact of the money numbers.

1986 Budget

4. You had some discussion of the overall fiscal and monetary framework at the Prime Minister's dinner before Christmas. There is not a lot to add at this stage. The Prime Minister made her preference for "fiscal prudence" very plain; what that means in practice is not very clear - but I doubt whether it would be wise to invite her to discuss precise figures before Chevening. There is a distinction between aiming for a tighter stance than we envisaged last year, and what is necessary is to stick to the MTFs (which, given higher asset sales, could well mean a lower PSBR). We have a lot of thinking to do on the monetary framework, but Brian Griffiths will be fully involved.

5. On reasonable assumptions about the PSBR (and the exchange rate and oil prices) we should have at least as much scope for tax cuts as we have had in recent years and probably more (upwards of $\frac{1}{2}$ per cent of GDP). The main building blocks are:

i. Direct taxes: basic rate v thresholds and the relationship with the Green Paper on personal tax; simplification of the higher rate tax structure.

ii. Indirect taxes: case for an increase in VAT this year; excise duties (including petrol and derv).

iii. Employment measures: a case for the smallest possible package this year, drawn from Lord Young's menu (main effect of 1985 Budget measures yet to come through; need to avoid another increase in planning totals).

iv. Other tax changes:

See also C. Menger's list from Chertemps paper - in your folder

- pension fund surpluses

- CTT - abolition of lifetime charge (small business angle)

- stamp duty - $\frac{1}{2}$ per cent off from date of big bang, financed as far as possible by widening the base.

- charitable giving package - abolition of of £10,000 limit on higher rate relief, new reliefs, (single gifts etc.)

- mortgage interest relief limit for 1986-1987 - which the Prime Minister is almost bound to raise herself.

- tax relief for savings ("income tax approach").
- Tax Payers charter (?)

Green Paper on Personal Tax

6. The Prime Minister's meeting has now been fixed for Tuesday morning. As you know her worries focus essentially on two issues: the cost and fiscal prudence; and the distributional impact. You might like to try and establish that these are really presentational issues; there are no other substantive proposals on personal tax which are worth considering. She needs to be quite clear that you are personally committed to publishing this Green Paper in some shape or form at Budget time.

7. Has she seen your ELA speech? You might like to leave a copy with her.

EMS

8. You might like to try and ^{dys}abuse the Prime Minister of her view that the experience of the last few weeks conclusively demolishes the case for joining in the EMS. I will try and get the oil price/exchange rate chart updated before you see her. There is also the delicate question of how far you pass on what you have learnt about the German's attitude. On balance I think this is rather dangerous territory.

9. You may want to refer to the forthcoming G5 meeting in passing.

10. You should have another chance to talk about the abolition of the TSRB; but you may have time to mention it this time. (Something seems to have happened to next week's bilateral; I am pursuing).

RL.



Ch.

You only have $\frac{1}{2}$ hour.

Concise Topics :-

(1) Markets and oil

(2) Personal Tax Green Paper

The dinner on Sunday night
is free, but final details
still have to be fixed (The idea
is for you to go around there).
You won't have to go over
Budget ground till then.

Re. 28/11.



FROM: MRS R LOMAX
DATE: 6 FEBRUARY 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: FRIDAY 7 FEBRUARY

You should have **one hour.**

and, in particular, Plan B.

2. You will probably want to spend much of the time talking about the **Budget**, and the handling (and possibly timing) of the **Economic Cabinet**. If we are going for a Cabinet discussion on 13 February, there is everything to be said for letting the Prime Minister see the paper over the weekend. (Among other things she has a major speech on Tuesday). The alternative of a Cabinet on 20 February is feasible - but it is debatable whether it is desirable.

3. The other topic of the day is the **Green Paper on Personal Tax**. You will have had your meeting with Mr Fowler at 9.00 am. We must do everything we can to dispose of the remaining matters at the next Ministerial group meeting. If that happens, Brian Unwin is clear that we are safe from a full Cabinet discussion and we should be well on track for Budget Day publication.

R.L.

RACHEL LOMAX

*P.S. You may well feel like mentioning **tax**, for the light of today's developments.*

of next PM
material
(was?)

Ch for PM
~~material~~
disappearance



Rh.

C.

20/11

Peter Lilley said he and other Hertfordshire MPs (including some from other parties as county councillors) lobbied Waldegrave yesterday about the RSG. Waldegrave said that if they did not want such problems in future years they should direct their representations to HMT - Peter thought you should know about this unfortunate behaviour.

PM *for PM* *blamed*
~~PM~~

Rh 10/1

1 *in* *the* *stage*

BUDGET CONFIDENTIAL



CHANCELLOR OF THE EXCHEQUER

FROM: MRS R LOMAX
DATE: 18 February 1986

BILATERAL WITH PRIME MINISTER: WEDNESDAY, 19 FEBRUARY

I think tomorrow's bilateral should be largely devoted to Budget matters. We should aim to start sending the Prime Minister formal minutes next week. But a lot has changed since you last had a proper talk about the contents of the Budget and you will want to give her some overall impression of the much smaller ... package you now have in mind. For reference, I attach a copy of the latest Scorecard.

2. She will not be surprised to hear that you are not thinking of doing anything on income tax. And she presumably knows we are in discussion with Lord Young about employment measures - though your views about the profile and scale of this package have changed in recent weeks. It is a bit early to say anything about possible changes in NICs. But you will want to sound her out on the indirect tax side - particularly petrol and derv.

3. Of the minor measures, you might want to touch on: stamp duty package; charitable giving; and pension surpluses. She may also be interested in the Share Purchase Scheme.

4. The Budget apart, you may want to raise:-

- (i) your minute on rates versus thresholds;
- (ii) markets (in the wake of unusually good PSBR and money figures);
- (iii) the Customs dawn raid.

Handwritten initials in red ink, possibly 'TN'.



5. We have another clear week before the Green Paper goes to Cabinet, so you may want to give that a rest for this week. It might just be worth reinforcing the message on **Tin** (which keeps threatening to come to a head).

Rh.

RACHEL LOMAX



CHANCELLOR OF THE EXCHEQUER

FROM: MRS R LOMAX
DATE: 25 February 1986

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 26 FEBRUARY 1986

The Prime Minister may want to discuss your minute on indirect taxes. I am told she is also likely to raise markets and interest rates.

2. You also wanted to raise:-

- (i) the Green Paper on Personal Tax;
- (ii) employment measures: you may have one more Bilateral before you see Lord Young; but so far the only time Debbie has found for the Lord Young meeting is next Tuesday - so you probably ought not to let this chance slip. Nick thinks you ought to use the opportunity to warn the Prime Minister off Lord Young's charts - which show underlying unemployment on an upward trend and put heavy emphasis on the effect of different measures in taking people off the register. He will let you have a short aide memoire by lunchtime tomorrow.

(iii) Waitgum

RACHEL LOMAX



Ans.

1. Budget.

You have mentioned the PM on:-

- Employment measures
- PSBR & monetary targets.

We will also be searching over

the latest draft of the Budget

Speech in the answering.

The further minutes to follow -

an civil service was proposed

2. PSBR in February. Rank

is being given here a note

3. Budget Debates + Chairman

4. Markets: timing (+800) of

best cut in interest rates

Re 12/13

Mon 7 April
6.45 - 7.45



OL
25/3

Rachel

PM BILATERAL : NEXT WEEK

No 10 had a bilateral with the CX in the PM's diary for the usual slot of 5.00pm on Wednesday. I explained that it was impossible for us and will have to speak to Caroline about it on Monday.

No real need,
I think; I will
press
news slot = good long
Barton
21/3
Guale.

Cly

How strongly do you feel about
his need for a bilateral next week.
It may be different to the Re 21/3

Hous {AS
SB}

GCSF

Stamp

(GMS)



Ch

You have a bilateral
with the PM on
Monday evening.

Are there any topics
you specifically want
to raise?

AWK

NPR as yet, 4/4
but with remainder No 10
I will be in Wash for at least 2 wks
& ∴ will miss Cabinet.
(Is there any ^{to} spend on it
after?) — see separate
note

JMB - Westpac
MGS



FROM: MRS R LOMAX
DATE: 7 April 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: MONDAY 7 APRIL

Possible topics for this evening's meeting include:-

(i) Markets: the PM will be wondering about the prospects for the next cut in interest rates.

(ii) International meetings and EMS realignment.

(iii) ADRs: as you know the Prime Minister has been lobbied about the new ADR charge. You may like to report in the light of this afternoon's meeting.

(iv) Lombard Association speech: you might like to tell the Prime Minister that you will be making your major speech on monetary policy to the Lombard Association on Wednesday 16 April.

(v) Discretionary pay for grades 2 and 3: as you know, the Prime Minister is planning a meeting on the joint Armstrong/Middleton submission. You were thinking of minuting her to say you have grave reservations; but, whatever is decided, you see a case for discussing at Cabinet, before any announcement is made. It might be less heavy-handed to make the point orally tonight.

(vi) Big Bang: the Prime Minister may mention that she is playing with the idea of holding some kind of open seminar or lunch to discuss the Big Bang. David tells me she is getting rather anxious. No 10 will be consulting us formally when they have thought a bit more about it themselves.

Skings

also my speech

See the further minutes from Armstrong + notes (below)



(vii) Honours: before Easter Peter told you that neither Sam Brittan nor Tony Jay had got through. You said you might mention to the Prime Minister.

RL.

RACHEL LOMAX

GCSE

PS. There may be something to report on the JMB sale, following this afternoon's meeting with the Deputy Gov.

AMS

STAFF IN CONFIDENCE



FROM: MRS R LOMAX
DATE: 23 APRIL 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: THURSDAY 24 APRIL AT 9.30am

Three subjects you might discuss this week:

i. State of the economy and markets: the Prime Minister will be particularly aware of the latest trade and unemployment figures. She has been very keen to get interest rates down. You went over this ground with Terry this afternoon. He probably said that while the economy is looking rather flat at the moment, it is all in the pipeline, and we should be wary about rushing ahead too fast on the interest rate front.

ii. Stamp duty package: you are sending the Prime Minister a minute, setting out the changes you propose to make to the stamp duty at second reading. She may need reassuring that we have found a way of killing the row, without running unacceptable risks with the Revenue.

iii. Civil Service pay and Review Body reports: the Prime Minister has now replied to your minute, without making it clear that she supports the line on running costs. You will want to emphasize the importance of this, without glossing over the problems it will cause with colleagues. More generally you may like to discuss how to handle Cabinet colleagues: Peter Middleton was wondering whether something ought to be said to the full Cabinet. On the Review Body reports, last year was a terrible warning. One moral that can be drawn is that the Treasury must have time to see and analyse the recommendations, before decisions are taken.

STAFF IN CONFIDENCE

Peter is most anxious to see these reports as soon as possible, preferably ahead of the rest of the gang. I gather the plan is to circulate at the end of this week, or the beginning of next, with a Prime Ministerial meeting immediately after Tokyo, say 8 May, prior to discussion at Cabinet on 15 May, for announcement the same day. The two Peters think this is just about OK.

2. I have an undated note from you saying you wanted to mention P Walker at the next PM bilateral: did you do this last week?

3. You will see from the note on your folder that Peter Middleton is still hoping that you can change the Prime Minister's mind about Richard Jameson.

Rh.

RACHEL LOMAX

post

Spence Tan

Revenue

PM broadcast



10:15

2074

~~*~~

App check whether the
PM has read the

article (unsigned, but by
Norman Macrae) in the
current Economist ,

entitled 'Remember Japan'

If not, she must

check She: it

contains a number of
important insights (not only
on Japan).

Yr.



BF 19.5.86

Ru \rightarrow Ch 13/5.

Bilateral with Am



FROM: MRS R LOMAX
DATE: 29 APRIL 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 30 APRIL 1986 AT 5.00 PM

You want to discuss the following topics:-

- (i) Tokyo Summit: You minuted the Prime Minister today, attaching a draft open statement on economic matters. As background to the Summit, I gather the Prime Minister is also likely to want to discuss the world currency scene - the future of the dollar, the extent of Japanese intervention etc.
- (ii) European Budget: the Edwards paper is being revised; an earlier version is in your folder.
- (iii) Education personnel.
- (iv) Civil Service Pay and Review Bodies: as agreed last week, you plan to report on the Civil Service pay offer to Cabinet this week, and we will be supplying a speaking note for the Prime Minister (on running costs). You will be returning to the subject of review body reports when you get back from Tokyo. There is nothing very fresh to say now.

Rh.

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 13 MAY 1986

4/19/5

part

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 14 MAY 1986

You may want to raise:

- i. Markets;
- ii. Speeches/presentation of policy; the Prime Minister has three major speeches coming up - The Scottish Party Conference, the CBI on 22 May and the Women's Conference at the beginning of June. You have two speeches this Friday in Birmingham. It might be worth discussing whether you can reinforce one another in making some useful points - for example about tax and public expenditure (eg in reply to Biffen).
- iii. Budget follow-up: you might like to bring the Prime Minister up-to-date on what is going on in various areas: profit sharing; PEPs, charities; and ADRs and stamp duty (where she has had letters from Lord Hanson and Sir Gordon Wright).
- iv. Roskill: you will see that the Prime Minister has simply ticked through the Lord President's minute of 8 May which reported H Committee's conclusions. You might have some ideas on the machinery in government angle.

*diagram has
w.r. summary
begin year.*

You may feel tempted to forewarn the Prime Minister about the JMB unpleasantness - though I would have thought there was a strong case for going in tandem with the Attorney General on this one. And there may be issues arising from recent meetings on:

- Review Bodies;
- Education (including, of course, "personnel").

RL.

RACHEL LOMAX



CHANCELLOR

FROM R LOMAX
DATE 4 JUNE 1986

**BILATERAL WITH THE PRIME MINISTER: THURSDAY 5 JUNE AT
9.30 AM**

You wanted to raise:-

i. Kenneth Baker: you will have seen the Chief Secretary at 8.30. See also note below with points from Robin Butler. The string on students and benefits may also be relevant.

ii. Mr Victor Paige.

iii. Markets: the Prime Minister has not really focussed on the first guess beyond remarking that the £M3 figure is "very bad". I am told that the preliminary provisional figure for £M3 is even worse than the first guess - around 3 per cent. So far HF have not come up with any plausible explanation for the exceptional rise in NIB sight deposits.

RL.

RACHEL LOMAX

* David is going to be helpful on this.
I have doubts about Nigel.



11/6.

Ch.

You won't have used them
 $\frac{1}{2}$ here this week. (You have them
next Wednesday).

I think you should start
getting the PM to really focus on
the PEX problem. The contract
work probably be to open up on
the "blatant or through July" option:
but, every successful case, that will
store up horrendous problems for
the Autumn, which we haven't
really thought our way through
yet. And, in the meantime, handing
of the July release would be as
rashly as EST or other early year.

P.O.

Other topics - y have -

(i) replacement for Mr Victor

Page

(ii) handouts

and the PM may - though I hope

not - raise the policy limit

when budget reserve (which

you haven't seen). To answer

whether you'll be seeing T

Ratcliffe for a chat when he

comes over. You'll want to water

his ideas before launching

any reviews (especially w/r them!)

Please don't mention Denis

Rostock's indiscretions etc. DN

told us in the strictest confidence

RH

11/6.



RF

Rachel

David Norgrove will be ringing you about the bilateral tomorrow.

One marginal candidate is Royalty Oil (papers below). The PM is apparently still worried about the cost, even though this has fallen significantly.

David will also want to talk to you about handling the PX round.

DJK
17/6



CHANCELLOR

FROM RACHEL LOMAX
DATE 17 JUNE 1986

BILATERAL WITH PRIME MINISTER: WEDNESDAY 18 JUNE AT 5 P.M.

For the first part of the bilateral, the Chief Secretary (but not Lord Whitelaw - at Ascot) will be present. Subject - public expenditure. Andrew Turnbull is producing a further aide memoire in the morning. David does indeed feel that last week's chat did not properly sink in; and even when it has, there will be some difficult political issues to discuss. The strategy meeting has not yet been fixed.

Subjects for the rest of the bilateral - if time: -

i. Lord Young's minute to the PM on unemployment of 12 June: Nick wants you to warn the Prime Minister against going ahead with TVEI now, if there is any real prospect of further additions to expenditure on reserve employment measures around the time of the Autumn Statement - and preferably to argue against any further measures before the Budget at the earliest. You will want to discuss briefly with the Chief Secretary, before deciding to whether to raise this. The relevant papers are inside your Prayers folder.

ii. Royalty oil: the Prime Minister is apparently still worried about the cost, even though this has fallen significantly. No need for you to raise, unless she does.

iii. Replacement for Mr Victor Paige: you wanted to mention the Financial Secretary's candidate, Christopher Bland.

The Attorney General is abroad until the end of the week, so there will be no opportunity for a trilateral until next week. You may want to give the Prime Minister a brief run down. If not, I will pass on the main points to Nigel Wicks.

RL

RACHEL LOMAX

PS. You will be presenting the PM on Royal Household/Prime
Andrew - we need to discuss.



CHANCELLOR

FROM R LOMAX

DATE 24 JUNE 1986

BILATERAL WITH PRIME MINISTER: WEDNESDAY 25 JUNE

The Prime Minister will certainly want to talk about South Africa. She may also mention public expenditure - though I do not know if there is anything very new to say (except perhaps Lord Young, who has been in to see the Prime Minister recently, claiming to have "settled" Department of Employment spending).

At some stage you will want to discuss the forecast, but probably not this week, except in the most general terms.

Peter thinks you ought to mention the Treasury reorganisation - speaking note in the Prayers folder.

You might also warm her up about profit sharing, on which you will be minuting her early next week, in time for a proper talk at next week's bilateral. David tells me that a lot of the Prime Minister's recent visitors have spoken well of the profit sharing initiative - ranging from the CBI to Alan Walters. So she may be more receptive than at Budget time. (Some inkling of her present state of mind would be helpful in drafting your minute).

RACHEL LOMAX

P.S. I hope she will raise LR: if so, you should try open her off for a week. Peter Cooper will be talking to Robey
022 about this on Thurs. Of course you'll be seeing
TBalt which soon.



CHANCELLOR

FROM R LOMAX

DATE 1 JULY 1986

**BILATERAL WITH PRIME MINISTER: WEDNESDAY 2 JULY 1986
AT 9.30 AM**

Public expenditure is not for tomorrow's meeting, although the Prime Minister may have already seen the Chief Secretary's draft paper. I assume, too, that the time to discuss nobbling colleagues is on Thursday.

You may want to mention today's exchanges about **Midland**.

Is it worth having a go at the Prime Minister on **teacher's pay**, before the 10.30 meeting? Perhaps leading off from the **forecast**, and the difficulty of doing anything about **public sector pay**, given the prevalence of various review bodies already. (We should be sending No.10 a copy of the forecast by the weekend. You may want to save a longer talk about it until next week).

You might want a word about **handling the markets** during **July**, over the public expenditure Cabinet.

You could also say a word about the **European Budget**, on which you will be sending her a **minute** on Thursday. (Draft in your folder).

The **Prime Minister** may mention:-

- **Inland Revenue**
- **Japan**, where her eye was caught by **Saturday's FT article** (enclosed).

A handwritten signature in blue ink, appearing to be 'Rl'.

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 10 JULY 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: FRIDAY 11 JULY 1986 AT 10.30am

You may want to raise:

- i. Your paper on economic prospects for Cabinet. This will also give you chance to say something about the forecast.
 - ii. The Chief Secretary's paper: the main point of substance here is the dropping of any reference to a report back to Cabinet in October (para 17). The Prime Minister will be briefed to get authority for setting up the Star Chamber in her summing up. The Chief Secretary has already spoken to Lord Whitelaw. Firm decisions about the October Cabinet can be taken nearer the time: this merely leaves the decision open.
 - iii. Nobbling. The Prime Minister has decided to see Mr Biffen; the Lord President will speak to Mr Fowler. The feeling is that Mr Baker is best left alone.
 - iv. Markets: there may be something to report on the interest rate front.
 - v. Taxpayer's charter. The Policy Unit have suggested some additional changes which the Inland Revenue do not like. See Tony's note below.
2. Either at the beginning or end of this bilateral, you ought to talk about funds for Prince Andrew: I replied to Nigel today, and he, rather than David, ought to be present. We need some idea from the Prime Minister of how much extra money she wants us to give Prince Andrew.

3. SB/C/106



3. You may also get a chance to put in a good word for Sam Brittain: CBE.

RACHEL LOMAX



PWP

CHANCELLOR

BILATERAL WITH PRIME MINISTER: WEDNESDAY 23 JULY 1986 AT 5PM

No doubt the Prime Minister will want to talk about South Africa and the so called constitutional crisis.

The other possible topics -

- **markets:** barring unforeseen developments the chances are that we now won't be able to get interest rates down until September, when the Germans and Japanese may make a move.

- **Teachers' pay:** the Prime Minister is thinking of asking Brian Unwin's official group to produce a report by September on the post ACAS scene.

- **TSRB:** we will be sending over your minute on TSRB, though the Prime Minister may not have had a chance to read it. But you could try out your ideas on the membership.

- **Mexico:** Tony is writing to David Norgrove tonight (see below).

- **Repealing the Exchange Control Act:** no urgency about this, but you might like to let the Prime Minister know where we have got to. There is a further note from Chris Kelly on the Euro option (which looks most unpromising). The Bank do not see much market advantage in repeal - and some risks.

RACHEL LOMAX



CHANCELLOR

FROM A C S ALLAN
DATE 29 JULY 1986

BILATERAL WITH PRIME MINISTER: WEDNESDAY 30 JULY 1986 AT 5PM

The main topic for your bilateral tomorrow will be **markets**. You are discussing this with the Governor and others tomorrow morning.

Teachers' pay may well also be worth raising, depending on the outcome of the MISC 122 meeting earlier in the afternoon.

One topic that arose at a bilateral with Peter earlier this month was a **CBE for Sam Brittan**. You said you planned to have a word with the Prime Minister.

AA

A C S ALLAN



sent
→ C Miss Kelly
the

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233

(F) honours.

Sir Peter Middleton KCB
Permanent Secretary

HONOURS IN CONFIDENCE

PUP

N L Wicks Esq
No 10 Downing Street
London SW1

4 September 1986

Dear Nigel,

NEW YEAR HONOURS 1987

The Treasury's departmental list of nominations has now gone forward. I am writing separately about one further nomination to which both the Chancellor and I attach particular importance.

It is customary for Governors of the Bank of England to be appointed to the Privy Council during their term of office. The last two incumbents were appointed after 3½ years and 2½ years in post respectively. By the New Year, Robin Leigh-Pemberton will have been in post for 3½ years. His appointment to the Privy Council in the New Year list would therefore be both timely and in line with past practice.

P E MIDDLETON

Ch (for PM list)

This is letter as sent.

AA



FROM: A C S ALLAN
DATE: 9 SEPTEMBER 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER: 10 SEPTEMBER

Not many specific points to raise with the PM.

Markets etc

2. The Prime Minister may want to discuss prospects for the financial markets - and particularly for interest rates. The reactions to the August money figures (eg on gilts) are relevant here. She is reported to be nervous about rising gold prices and falling bond prices as indicators of inflationary expectations.

International meetings

3. She may inquire about prospects for the Bank/Fund meetings, though I have told David Norgrove there is not that much to discuss.

The FRN

4. You might like to mention that this seems to have gone well. Demand was such that the size was increased to \$4 billion, and the press comment was low key but generally favourable.

Honours

5. You said you would support Peter's proposal that the Governor should be made a Privy Councillor.

Chequers 19 October

6. We have now settled that public expenditure should not feature at this meeting, except perhaps as part of the wider economic context. I doubt you would want to raise this unless the Prime Minister does.

AA
A C S ALLAN

mp



FROM: A C S ALLAN
DATE: 12 SEPTEMBER 1986

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: MONDAY, 15 SEPTEMBER

The green pound should have been settled before this bilateral. Main points likely to come up are:

Markets

The Prime Minister will no doubt want to discuss the recent girations in all the various financial markets.

International Meetings

The Prime Minister may want to inquire on the prospects for the Bank/Fund meetings (and possibly Gleneagles as well). I have told David Norgrove there is not all that much to say.

Governor to be Privy Councillor

You said you wanted to raise with the Prime Minister your support for Peter Middleton's proposal that the Governor should be made a Privy Councillor.

ACSA

A C S ALLAN



FROM: A C S ALLAN
DATE: 29 October 1986

CHANCELLOR

BILATERAL WITH PRIME MINISTER

The following topics may come up in your bilateral with the Prime Minister tomorrow.

Autumn Statement etc

2. I gather the Prime Minister wants to discuss the presentation of the Autumn Statement and the potential market implications. One important point to get across to her will be that the basic line on public expenditure is that the Government has made a balanced and considered assessment of its priorities (as opposed to presenting it as something squeezed out of us with great reluctance).

National Insurance Contributions

in Comp. pr. allows

3. I gather that the Prime Minister wants to ask where you have got to on the ideas she floated at Chequers* about a quarter per cent increase in National Insurance contributions and about an increase in the National Health Service allocation (the "Health Stamp"). On the first point you will want to say that the size of the surplus in the Fund (approaching £1 billion) means that it would be very difficult to increase National Insurance contributions (adding a quarter per cent would increase the surplus by another £600 million). On the health allocation, you will see from Gill Noble's minute in the separate folder that Mr Fowler - for reasons which are not entirely clear - does not favour increasing it. There is not much more you can say to the Prime Minister at this stage - except perhaps to get her on-side if you do want to press Mr Fowler on this point.

(* see below).

*0.19
NHS =
290/330*



Reform of Local Government Finance

4. I will let you have an aide memoire tomorrow - I found I needed to check one or two facts with LG before I could complete it.

Honours

5. I spoke to Nigel Wicks about progress on the proposal that the Governor should be made a Privy Counsellor, which you had raised at an earlier bilateral. Nigel was very insistent that to raise this again now would be counter-productive. I pressed him, saying that it was not good enough to let this idea drop by default. He was pretty guarded but eventually said "you did not need to worry". Given this, I think you should not raise it; if you do intend to do so, you should speak to Nigel first.

A C S ALLAN



FROM: A C S ALLAN
DATE: 4 November 1986

CHANCELLOR

Agans.

BILATERAL WITH PRIME MINISTER: PRESS LINE ON CABINET'S DISCUSSIONS

You said you would raise with the Prime Minister the line to be taken on continuing press queries about when Cabinet would discuss public expenditure:

- (i) We should continue with the line that public expenditure was not on the agenda for Cabinet on Thursday.
- (ii) But of course Cabinet could discuss any subject it chose.
- (iii) If there were any obvious leaks then we should simply say that we never comment on alleged leaks.

2. Assuming all goes well on Thursday, the line would be that Cabinet had had a long discussion about PES and had reached agreement; it had then discussed the options for the timing of the statement and had decided that the Chancellor should do it that afternoon.

AA

A C S ALLAN



Ch

PM bilateral

Main topic will be
reactions & follow-up to
Autumn Statement.

You also said you would
tell PM of Deputy Gov's
role in Anne Segall story

Laminant

AA



FROM: A C S ALLAN
DATE: 24 November 1986

B/A
25/11
pwj

SIR P MIDDLETON

**CHANCELLOR'S BILATERAL WITH THE PRIME MINISTER:
WEDNESDAY 26 NOVEMBER**

You kindly agreed to provide the Chancellor with a few brief points to make to the Prime Minister about the different lines coming out of No.10 and the Treasury over ^{interest} ~~swap~~ rates, exchange rate etc.

ACSA

A C S ALLAN

From: SIR PETER MIDDLETON

Date: 25 November 1986

CHANCELLOR

POINTS FOR THE PM

It is essential for the PM and the Chancellor to speak with one voice on economic matters - especially market matters. The juxtaposition of comment following the Autumn Statement did great damage to our credibility. It caused dismay in the foreign exchange and gilt edged markets. And it detracted from a carefully prepared presentation.

2. The message so far as monetary matters are concerned is simple:

- (a) comments should be in line with our continuing strategy - stress prudence;
- (b) they should refer to the instruments of policy very infrequently;
- (c) they should not imply a particular level of either interest rates or sterling;
- (d) in particular, anything which suggests that we should welcome a lower exchange rate at some stage is likely to result in both a lower exchange rate and higher interest rates now;
- (e) there must be consultation about any departures from this position.

??
Is this aimed
at you!

3. In general we should stress the strengths and not the weaknesses of the economy.

4. The EMS is causing some very strange things to be said. It is an emotional issue. My strong recommendation would be to deal with these questions in future by saying that there is nothing to add to what has already been said. It may be boring but at least it is safe. And it may mean we can concentrate on the policy which we presently have.



P E MIDDLETON



FROM: A C S ALLAN

DATE: 2 December 1986

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 3 DECEMBER

The main points for your bilateral with the Prime Minister are:

Markets

2. We now know that the November increase in the money supply (published on Thursday, 18 December) will show a year on year increase in M0 of about $5\frac{1}{4}$ per cent. The difficulty will be to persuade the Prime Minister that that is sufficient to justify an increase in interest rates (see separate note).

Larosiere succession

3. (See Tony's note in the folder).

Sizewell

4. Peter Walker has now replied to the Chief Secretary, accepting that the Treasury must play an important part in the decision on Sizewell. But it may be as well to stress the point to the Prime Minister, and a speaking note is in the folder.

Dual resident companies

5. You wanted to mention this to the Prime Minister before the Inland Revenue consultation document was published. An aide-memoire by the Revenue is in the folder.

PERSONAL



Bank of England appointments to Court

6. The Governor's PS tells me that Hogg could not spare the time, but **Corness would be prepared to accept** (see letter in folder). The next stage is for you to prepare the ground with the Prime Minister on Corness (and on the re-appointment of Laing, Baring and Jacomb) before the formal procedures of getting approval from the Queen are set in hand.

IMF Article IV consultations

7. If you are going to report briefly to Cabinet on the IMF consultations (as recommended in Huw Evans' note in the folder) you should mention them to the Prime Minister first.

A C S ALLAN



A C S ALLAN

DATE: 14 January 1987

CHANCELLOR

BILATERAL WITH PRIME MINISTER

The main topic for the bilateral is markets (weakness of \$, EMS realignment, UK interest rates etc). She will be aware of the "first guess" of the £M3 numbers - the rather puzzling fall of 0.8 per cent.

2. She may raise off market reserve transactions (she keeps badgering David about these when she sees the evening reports). At your meeting, the main topic we covered was MOD forward purchases, which will of course add to the problem. You want to raise with the Foreign Secretary (reminder is in the Cabinet ^{folder} ~~Office~~) the question of paying for some BAOR expenditure in sterling to be held in the German reserves. We did not really discuss the issues about getting Government departments to buy their foreign currency in the markets directly. This is something which David personally feels strongly that we should do. There are predictable Bank of England objections over the implied loss of flexibility. We owe David a note, and I have asked Chris Kelly to produce one.

A handwritten signature consisting of the letters 'AA' in a stylized, cursive script.

A C S ALLAN



Ch

Points for PM bilateral

- ① Markets (depending on outcome of meeting)
- ② Importance of common line from No 10 & Tsy on markets etc (Peter's note in folder).
- ③ Space
- ④ Docklands railway and Cardiff barrage
- ⑤ Larosière Succession

AA

(also pension forfeiture - see my note + papers from PEM).



FROM: A C S ALLAN

DATE: 20 January 1987

CHANCELLOR

BILATERAL WITH PRIME MINISTER: 21 JANUARY

The main points for your bilateral with the Prime Minister tomorrow are.

Guinness

2. The Prime Minister is keen for a report on developments on Guinness and Morgan Grenfell. Your discussion with the Governor and Mr Howard is immediately before the bilateral, so you should be fully up-to-date.

Markets

3. Continued weakness of the dollar, etc. - though this evening in New York it is slightly firmer, over DM 1.84.

Budget Cabinet

4. It looks as if the most convenient date for the Budget Cabinet would be 12 February. This needs to be confirmed with the Prime Minister. Michael Scholar is convinced this is almost exactly the same date as last year, but David Norgrove believes it is rather late. Michael will provide a note with the precedents tomorrow morning.

A handwritten signature in blue ink, consisting of the letters 'A C S' followed by a stylized 'A' and 'L'.

A C S ALLAN



FROM: A C S ALLAN
DATE: 24 February 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 25 FEBRUARY

The main points for your bilateral with the Prime Minister tomorrow are:

Littlewoods

The attached note by Peter Cropper sets out the latest state of play.

Intervention

The Prime Minister will want to have a go about the need to build up our reserves. I attach the tables showing historical figures for intervention - delayed because we had great trouble getting numbers which added up. They show that we have already this year more than recouped the "losses" last year. Apart from the point about the exchange rate/interest rate trade-off, there is also the argument that the best conditions in which to get some reserves in is when the rate is gently rising, rather than when we hit it so firmly on the head it stays flat.

G5/G7

The Prime Minister may want to have a word about the weekend's meeting, and in particular the Italian problem.

Budget

I attach an Aide Memoire and relevant back papers.

A handwritten signature consisting of the letters 'AA' in a stylized, cursive script, with a horizontal line underneath.

A C S ALLAN

BUDGET: AIDE MEMOIRE

Since you explained the prospects to the Prime Minister at Chequers the position has changed as follows:

<u>£bn</u>	1986-87 <u>PSBR</u>	1987-88 <u>Tax package</u>	1987-88 <u>PSBR</u>
January	5.2	2.9	4.3
Now	4.3	2.6(a) (b)	3.9

(a) with non-revalorisation

(b) the 1988-89 (direct) effect of the 1987-88 tax package is £2.9 billion.

A simplified scorecard is attached.

2. The main portion of the tax package is the 2p off income tax. Points to bring out are:

- (i) simple revalorisation (3.7 per cent) of basic allowances;
- (ii) no change in higher rates;
- (iii) higher rate bands compressed (as last year).

The net effect is shown in the attached charts and tables, where the selected option is "Option 5".

3. The other main element is non-revalorisation of excise duties. This saves 0.3 per cent on the RPI, more than offsetting the 0.15 per cent cost from 2p off the basic rate.

4. The other elements of the package are:

- (i) VAT partial exemption (already announced), plus VAT small business package - with the ceiling for cash accounting raised to £250,000;
- (ii) Inheritance Tax threshold raised from £71,000 to £90,000; seven rates collapsed to four;
- (iii) PRP introduced at double tax relief in Green Paper. Eventual cost £100 million a year;

- (iv) Pensions. Agreed proposals with Mr Fowler on personal pensions and AVCs. Anti-abuse measures (cap on lump sums, exploitation of final salary);
- (v) Corporation Tax. Small companies rate down to 27 per cent; capital gains taxed at same rates as income, with ACT offset; anti-avoidance measures on payment dates, dual residents, and banks tax-sparing.

4. You might mention the various lollipops listed beneath the simplified scorecard.

5. It is probably premature to mention Lloyds RIC. The Prime Minister will be interested in the (modest) changes to oil taxation, but this too is premature until we sort out exactly what we can get in the Finance Bill.

6. You will not want to raise mortgage interest relief. But in case the Prime Minister does, I attach Michael Scholar's earlier brief.

7. MTFS issues can be left to next week's bilateral, after you have had your meeting with the Governor.

8. Michael Scholar tells me that the prospect that the Budget statement will ^{probably} last less than an hour will appeal to the Prime Minister.

SIMPLIFIED SCORECARD

	<u>1987-88</u>	<u>1988-89</u>
1. Income tax	-2160	-2720
2. Excise duties	-520	-570
3. VAT - partial exemption	+300	+400
- small businesses	-115	-35
4. IHT	-70	-150
5. PRP	neg	-35
6. Pensions (net) (a)	neg	-65
7. CT (net) (b)	neg	+235
8. Other (net) (c)	-25	+70
	<u>-2590</u>	<u>-2870</u>

(a) Personal pensions, AVCs and anti-abuse.

(b) Small companies rate, capital gains, payment dates, dual residents, bank.

(c) Mainly from Keith PAYE and sub-contractors; and car and fuel benefits.

Lollipops included in various places above

- (i) abolition of on-course betting duty;
- (ii) extra age allowance for over-80s;
- (iii) Training e.s.c;
- (iv) BES end-year bunching and films;
- (v) CGT retirement relief;
- (vi) Charities mini-VAT-package.

INCOME TAX

	<u>1986-87</u>		<u>1987-88</u>
29	0-17,200	27	0-17,900
40	17,201-20,200	40	17,901-20,400
45	20,201-25,400	45	20,401-25,400
50	25,401-33,300	50	25,401-33,300
55	33,301-41,200	55	33,301-41,200
60	Over 41,200	60	Over 41,200

INHERITANCE TAX

	<u>1986-87</u>		<u>1987-88</u>
0	0-71	0	0-90
30	71-95	30	90-140
35	95-129	40	140-220
40	129-164	50	220-330
45	164-206	60	Above 330
50	206-257		
55	257-317		
60	Over 317		



FROM: A C S ALLAN

DATE: 3 March 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 4 MARCH

The main points for your bilateral tomorrow are.

Intervention

2. My letter to David today set out the historical figures. Two other points:

(i) the rate was knocked on the head today when the market decided (wrongly) that the Bank was intervening to try to stop the rise. This demonstrates clearly that a central bank cannot buy dollars in the market in the same way as a commercial company;

(ii) (Not a point for you to raise!) Chris Kelly's note (in blue folder) records that the whole of Boeing's \$1 billion forward sale of sterling for the AWACS deal went through the market today. It is pretty striking that the market absorbed this so easily, and indicative of the underlying strength of demand for sterling.

G5/G7

3. You can bring the Prime Minister up-to-date on the latest state of play.

Coal and Steel privatisation

4. The Prime Minister would be interested to hear an account of your discussions with Mr Walker, and your own thoughts.

A handwritten signature in black ink, consisting of the letters 'AA' in a stylized, cursive font.

A C S ALLAN

I don't think there are any new points on the Budget: minutes being drafted by Michael Soblow & should be ready shortly.



FROM: A C S ALLAN

DATE: 10 March 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 11 MARCH

The main points for your bilateral tomorrow are:

Civil List

2. Nigel Wicks says that the Prime Minister wants to raise the review of the Palace. She wants (a) to know how the system for charging out overheads would work; (b) reassurance that the unilateral decision to charge Departments more is one they would swallow; and (c) why we are against making any public reference to the existence of the Peat's Report. I will commission briefing tomorrow, particularly on (a).

(max £50,000)

Budget

3. You will be able to give her the latest version of the Budget Speech. The minute on the MTFs etc will follow as soon as final decisions on the PSBR have been taken.

Markets

4. Aftermath of $\frac{1}{2}$ per cent cut; and prospects for further move next week.

Speakers for Budget Debate

5. You said you wanted to raise this with the Prime Minister, following your discussion with the Chief Whip.

Space

6. The Chief Secretary is going to E(A) on Thursday, and Mr Channon's further paper has just arrived. This is an



opportunity to lobby the Prime Minister to take a tough line against what will no doubt be strong support for extra spending. If it does look as if she may feel she has to concede something, David wondered whether it might not be better for the Treasury to beat a tactical retreat rather than be overruled directly; but I think it would be very odd for the Treasury not to fight this - weak - case as hard as it possibly can.

AA

A C S ALLAN



Ch

HKS B / Midlands

Proposition: HKS B to buy 14.9%; new shares; gives Midland £400m free capital; no cross-holding in HKS B by Midland; price 500p versus current mkt price of 340p (should be no preemption rights problems!).

Timing. Gov to see Patrick Wright this ~~am~~ afternoon; he will warn Wilson; HKS B board to meet tomorrow to approve plan; Purves then sees Wilson.

Assumed v early Friday morning London time.

AA



Walter Storer:

Coal strikes

Oil price collapse
& inflation

~~High~~ household
over-reaction



Ch

Main topic is
market etc + Guildhall
speed.

Possible PEM may
seek a word tomorrow
morning about 16bs
Next steps.

AA

per cent. by the summer, before falling back to 4 per cent. by the end of the year. While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an underlying downward trend.

Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole. There are still serious imbalances afflicting the three major economies—the United States, on the one hand, and Japan and Germany on the other—which, if not handled properly, could lead to a simultaneous downturn in all three. And this in turn could be exaggerated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

It was to address these dangers that the Finance Ministers and central bank governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability. In my Budget speech last year, I said:

"Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."—[*Official Report*, 18 March 1986; Vol. 94, c. 167.] That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

Short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability. Provided it can control its costs and maintain its present competitive advantage, and assuming the continuation of present policies, we can look forward to many more years of strong growth combined with low inflation.

MONETARY POLICY

For their part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy. The central objective of the MTFs is gradually to reduce the growth of money GDP over the medium term so as to squeeze inflation out of the system and ultimately to achieve price stability. This requires monetary discipline buttressed by low public sector borrowing. The essential instrument of monetary policy must remain short-term interest rates. These will continue to be set in the light of monetary conditions as indicated principally by the growth of narrow and broad money and the behaviour of the exchange rate.

For narrow money, MO, the target range for next year will be 2 to 6 per cent. as foreshadowed in last year's MTFs. For broad money, however, as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, it is probably wiser in current circumstances to eschew an explicit target altogether. But broad money will continue to be taken into account in assessing monetary conditions, as of course will the exchange rate.

PUBLIC SECTOR BORROWING

I mentioned a moment ago the need to keep public sector borrowing low.

The final outturn for the public sector borrowing requirement last year, 1985-86, was just under £6 billion, equivalent to 1½ per cent. of GDP, the lowest level since 1970-71. In my Budget last year, faced with a massive loss

of what now looks to be almost £7 billion of North sea oil revenue, I none the less decided to hold the PSBR for this year, 1986-87, to £7 billion, or 1¾ per cent. of GDP.

In the event, this year's PSBR looks like turning out at only £4 billion, or 1 per cent. of GDP—the second successive year of significant undershoot. This successful outcome is chiefly attributable to the remarkable buoyancy of non-oil tax revenues in general and of the corporation tax paid by an increasingly profitable business sector in particular.

Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North sea oil price will average \$15 a barrel. But it is clear that the increased flow of non-oil tax revenues, coupled with the prospective further growth of the economy in excess of the growth of public expenditure, puts the public finances in a very strong position. I intend to keep it that way.

Last year's MTFs indicated a PSBR for 1987-88 of £7 billion, or 1¾ per cent. of GDP; and, as the House will recall, I gave an assurance at the time of the autumn statement, when I announced a £4¾ billion increase in planned public expenditure in 1987-88, that on no account would I exceed that figure.

Indeed, I believe it is right to go below it. Since its inception in 1980, the MTFs has indicated a steadily declining path for the PSBR expressed as a percentage of GDP. We have now reached what I judge to be its appropriate destination—a PSBR of 1 per cent. of GDP. My aim will be to keep it there over the years ahead. This will maintain a degree of fiscal prudence that, until this year, had been achieved on only two occasions since 1950.

Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion.

Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which of course remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future. That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now.

Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong, and have been proved wrong. The British economy is now embarking on its seventh successive year of steady growth, at an average rate of getting on for 3 per cent. a year. And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent. of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would never have been in the unprecedentedly favourable position it is in today.

[Mr. Lawson]

output up by 3 per cent., its productivity up by almost 4 per cent., and both its investment and its exports up by 6 per cent.

At the heart of this success lies a remarkable turnaround in productivity. In the six years prior to 1979, Britain's annual rate of growth of manufacturing productivity, at less than 1 per cent., was the lowest of all the Group of Five major industrial nations. In the six years since 1979, our annual rate of growth of manufacturing productivity, at 3½ per cent., has been second only to that of Japan.

Looking ahead, I expect 1986 to be a further year of steady growth with low inflation. Indeed, with output forecast to rise by 3 per cent., and inflation to fall to 3½ per cent., 1986 is set to register our best overall performance in terms of output and inflation for a generation. The pattern of growth should show a satisfactory balance, too, with exports and investment expected to grow rather faster than consumer spending—as indeed they have during the sustained upswing. But the uncertainties inherent in all these forecasts, good though their track record has been, are reinforced by constant reminders that we live in an uncertain and turbulent world.

One particularly difficult aspect of this is the febrile nature of the world currency markets. There has been some improvement here. The Plaza agreement between the Group of Five Finance Ministers last September has undoubtedly led to a more sustainable pattern of exchange rates worldwide. Since that meeting, the dollar has fallen by some 16 per cent. against the other major currencies as a whole, with the pound moving up by 7 per cent., the deutschmark by 26 per cent. and the yen by 36 per cent.—a pattern broadly in line with what those of us who were party to the agreement had hoped to see.

This process will be assisted further if the passage of the Gramm-Rudman amendment manages to secure its objective of a much-needed reduction in the United States budget deficit. Meanwhile, the Plaza agreement has already succeeded in reducing, at least for the time being, the dangerous protectionist pressures that were building up in the United States. Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on. But the most dramatic development on the world economic scene, and one of considerable importance to this country, has of course been the collapse in the price of oil.

OIL

I presented my Budget last year at the end of a 12-month coal strike. I observed at the time that it was a remarkable tribute to the underlying strength of the British economy that it had been able to withstand so long and damaging a strike in such good shape. We now have to face a challenge of a very different kind. Over the past few months, the price of oil has almost halved, and with it our prospective North sea oil tax revenues and earnings from oil exports. In real terms, the price of oil is now back to what it was at the end of 1973.

Not surprisingly, perhaps, this initially caused a fair amount of turmoil in the financial markets, with sterling under pressure. I decided that it was right to respond with an immediate 1 per cent. rise in short-term interest rates

in early January, and this helped to prevent the downward movement of the exchange rate from developing an unhealthy momentum of its own. But equally I thought it right to resist the pressure, which for a time was very strong indeed, to raise interest rates still further. That pressure in due course subsided, and, though the financial markets remain somewhat volatile, the mood has changed considerably, assisted by a modest but welcome reduction in interest rates overseas.

Meanwhile, let me repeat that there is no question whatever, and never has been any question, of the United Kingdom cutting back its oil production in an attempt to secure a higher oil price. In the first place, the whole outstanding success of the North sea has been based on the fact that it is the freest oil province in the world—[HON MEMBERS: "We need to be."—in which decisions on levels of output are a matter for the companies and not for the Government. In the second place, we are not only, or even principally, a major oil producer; we are also a major world producer and trader of many other goods and services, and a major oil consumer.

There is no overall United Kingdom national interest in keeping oil prices high. I am of course aware that a report, recently published in another place, and which attracted a certain amount of publicity at the time, predicted: "as the oil revenues diminish the country will experience adverse effects which will worsen with time"—effects, it was said, of a most alarming nature. Had the authors of that report dreamed at the time they wrote it that half the oil revenues were about to disappear within a matter of months, their conclusions would no doubt have been even more apocalyptic. As the House knows, I have always believed their analysis, which was widely shared by Opposition Members, to be profoundly mistaken. Certainly, it will be put to the test sooner than anyone expected.

The United Kingdom is likely to remain an oil producer, of a gradually diminishing volume of oil, for the next 25 years or so. If we can survive unscathed the loss of half our North sea oil revenues in less than 25 weeks, the prospective loss of the other half over the remainder of the next 25 years should not cause us undue concern. [Laughter.]

Hon. Members: Hear, hear.

Mr. Lawson: It is, of course, true that in relative terms we do lose from the collapse of the oil price—the really big gains will be made by the major non-oil-producing countries, such as Germany and Japan, where growth will be boosted and inflation, already low, is likely to fall virtually to zero.

Inevitably, we suffer a decline, too, in the value of our net oil exports. But the oil price fall will be beneficial for the industrialised world as a whole. Even for the United Kingdom, what we gain on the swings should, over time, more than offset what we lose on the roundabouts. In particular, I expect that the levels of economic activity and inflation will, if anything, be slightly better than they would have been without the oil price collapse.

What of the balance of payments? Thanks to the abolition of exchange controls in 1979, we have been able to use a good part of our earnings from North sea oil since then to build up a massive stock of overseas assets. Our net overseas assets have, in fact, risen more than sevenfold from £12 billion at the end of 1979 to almost £90 billion at the end of last year. This is a far bigger total than that



prop
(PM related
papers)

Ch

I wonder if we don't often miss tricks by not keeping you to raise topics with PM @ early stage @ materials. Selection of subjects is pretty haphazard: mostly things I think are worth raising, sometimes things David feels should be discussed and (very occasionally) topics specifically suggested by Treasury officials. Could be a point Peter would usefully raise at PCC: people
over

should be on the lookout for
topics where an early
intervention by you is likely
to bear fruit (sow seeds etc,
these agricultural metaphors
cling like weeds!). Could
raise @ PFSM Material?

(If we did do something
like this, I promise to filter
out insane requests).

AA



FROM: A C S ALLAN
DATE: 16 June 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 17 JUNE

Three topics for the bilateral tomorrow (EMS for next week).

Timing of Parliamentary Recess

2. Caroline Sinclair's brief below covers the Finance Bill points. GEP will let you have a note tomorrow on public expenditure/July Cabinet points - including precedents on raising the planning total.

Public expenditure survey

3. This is an opportunity to warn the Prime Minister about the public expenditure outlook, and stress the need for a tough line on any new bids.

Legislative programme

4. Worth a word in advance of Cabinet about the necessity of getting the main Water Bill in the programme for the new session if our privatisation plans are to be realised. See unhelpful letter from Mr Ridley in folder.

A C S ALLAN



FROM: A C S ALLAN
DATE: 13 July 1987

CHANCELLOR

BILATERAL WITH PRIME MINISTER: TUESDAY 14 JULY

The main points for the bilateral tomorrow are.

Public Expenditure Cabinet

2. Latest drafts of the various papers are in the folder. The Prime Minister leaves for Washington on Thursday afternoon and will be back on Sunday morning. I think this points to clearing the papers over the weekend in the normal way, though David would clearly prefer something sooner: but Wednesday night will presumably be totally preoccupied with Washington stuff, and Tuesday night is probably impracticable for us. It might in theory be possible for us to have the papers ready in time for her to take them with her to Washington (Nigel is going as well as Charles Powell), but I can't see any advantage in that over letting her do them on Sunday. I will check all this with Robin Butler in the morning.

3. I don't think there is anything in the latest draft of the Public Expenditure paper which is any different from what you told her last week. The running costs annex will be new, and you might like to warn her of that. There will be nothing remarkable in the Economic Prospects paper.

Rate support grant settlement

4. You may want to record where you got to with Lord Whitelaw, and express the hope that it will all be sorted out by him. I have asked for supplementary briefing on Barnet before the bilateral.



Prison building

5. Do you want to raise this with the Prime Minister? Mr Hurd's H Committee paper is in the folder just in case.

Special Advisers as PPCs

6. This was not reached last week. PM is not persuaded of case for change (I have stopped David minuting this out until you have had a chance to discuss).

A C S ALLAN



FROM: A C S ALLAN
DATE: 7 September 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: TUESDAY 8 SEPTEMBER

The main points for your bilateral tomorrow are:

Prospects for the 1987 survey

2. The note commissioned by the Chief Secretary is in the folder.

Markets

3. Events since (well justified) decision to increase interest rates by 1 per cent. PM will no doubt go on about need to cream off: Bank didn't manage to get score above 29 today.

Benefits in kind

4. Three points here:

- (i) Proposed press notices on third party benefits in kind and third party gifts.
- (ii) Late night taxis - FST has minuted PM.
- (iii) Employee share holdings. Conclusions this afternoon were
 - legal advice implies some change essential;
 - probably will want to announce plans to legislate in next year's Budget to keep position at status quo;
 - this will mean no distinction between employees and other members of the public: all would be subject to CGT on gains when realised;
 - may need to be some restrictions (eg not more than 10 per cent of issue allocated to employees).



Lunch at Bank of England

5. The Prime Minister's lunch is on Wednesday. You have seen the Bank's note on foreign ownership of UK financial institutions. David Peretz suggests you might like to discuss with the Prime Minister the line she might take if asked about the EMS: but do you want to raise this?

Sam Brittan

6. Do you want to raise now the case for an honour for Sam Brittan?

AA

A C S ALLAN



FROM: A C S ALLAN

DATE: 14 September 1987

In Anton
15 points

CHANCELLOR

Le D Ten

BILATERAL WITH PRIME MINISTER: TUESDAY 15 SEPTEMBER

The main points for your bilateral are:

Markets

2. Everything is pretty quiet, but the Prime Minister - judging from her remarks to Eddie at lunch at the Bank - seems to want to run a completely different, and highly inflationary, policy.
3. You might also report on the informal ECOFIN, and the prospects for the Washington meetings.

Benefits in kind

4. David will be speaking to her before your bilateral about late night taxis and third party gifts. I will let you know the outcome, and whether any points remain which you should discuss with her.

Bank takeovers

5. We have fixed up a meeting with the Governor on Thursday. But the Prime Minister's interest has been stimulated by Saatchi/Midland. The other ones "in play" are Hill Samuel (who seem in a terrible mess now the UBS deal has fallen through, with Adler and Packer circling hungrily) and Guinness Mahon (where it seems assumed that Equiticorp will prevail). In the background is Standard Chartered.

Britannia
Show her coin.

AA

A C S ALLAN



Ch

PM bilateral

Unprompted by me, David rang me to say he'd been discussing trade figures with PM, & thought it would be useful to have a bilateral with you. He asked what your line would be: I simply said that in the first instance there was plenty of recent intervention to unwind.

AA

(PS folder for PM bilateral to follow)



FROM: A C S ALLAN

DATE: 22 September 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: TUESDAY 22 SEPTEMBER

The Prime Minister will not have all that long tonight: she is not due back from Birmingham until 6.30, and has a formal dinner at 7.45. But that probably suits you.

Markets

2. August trade figures and all that. But we have got - and are still taking in - plenty of reserves which we can use to steady things in the short-term.

Williamson succession

X 3. A push for Roger, as the best man for the job, and makes a lot of sense to have a good Treasury man in that post for the tricky times ahead. [Also opens up future opportunities for Scholar/Lankester/Turnbull etc).

AA
A C S ALLAN

(Nigel Wicks rang me then he heard from David that you might raise X. The usual rather stuffy line about proper ways to do things / papers not in front of her / nothing will happen till Armstrong back from Greece. But I assured him you just wanted to put down light matter, & he seemed appeased. He may sit in on bilateral).



FROM: A C S ALLAN
DATE: 2 October 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: MONDAY 5 OCTOBER

International Meetings

You have already reported at Cabinet on the main points, but there are a couple of things you might like to elaborate on:

- (i) Debt, especially in relation to CHOGM: your initiative; SAF (including skewing); and Seaga. (I have commissioned Geoff to do a draft minute to the PM)
- (ii) Your managed floating speech, which David tells me the Prime Minister has read carefully!

Markets

2. The picture now looks rather different from what it did when you discussed it before the trade figures.

SIB

3. You might take the opportunity to have a word with the Prime Minister about Lord Young's minute (Rachel is doing a draft response, routed through Peter). David tells me that the Prime Minister thinks quite highly of Berill personally, though she accepts he is pernickety. So best to play that up and say very able but not right talents for SIB job.

A C S ALLAN

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on last year
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paralysed*



FROM: A C S ALLAN
DATE: 20 October 1987

Reagan
✓
pyp

CHANCELLOR

date jags
price

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 21 OCTOBER

Two points for your bilateral with the Prime Minister: markets, and PES.

Markets

2. Mains points to cover are:

Stock Market/Wall Street. Enormous falls on Monday and early Tuesday. Wild fluctuations since then. Bond markets very strong. For the UK, helps to take off froth and worries about over-heating; but some danger US may talk itself into recession.

Prudential worries. Have been some big losses, but Bank do not believe any so far have been catastrophic. Bank and SE are monitoring closely.

BP. No question of pulling issue; that's what underwriting is for. May mean WSO objectives fail, but duties to taxpayer etc. *Cancelled ads for time being*

Louvre. Exchange rates pretty stable amid turmoil. Dollar hit by Baker's stupid outbursts. But patched up by Baker/Stoltenberg/Poehl.

Public expenditure

scorecard + Star Chamber pages 2/3/4/5

3. Now settled everything except Aid; likely to go to Star Chamber on Thursday. Plot is:

- (i) Prime Minister to announce at Cabinet this Thursday that Cabinet next Thursday will discuss public expenditure;

*Economic
convergence*



(ii) probably a note by the Chief Secretary to Cabinet, rather than (as more usual) by Lord Whitelaw (submission on this to follow). At Cabinet you will as usual speak about Reserves, privatisation proceeds, planning totals, ratios and economic prospects;

(iii) probably (because of BP worries) no announcement at all on next Thursday - beyond Ingham communique on lines that "Cabinet today successfully completed public expenditure discussions; Autumn Statement next Tuesday". You will be asking Prime Minister to stress to Cabinet the need to avoid leaks before then.

4. Presentation in AS will emphasise continuity: more for priority programmes; kept within GDP ratios (lowest ratio since (?) 1972-73); some tough decisions; economic prospects good.

A C S ALLAN

20 October 1987



FROM: A C S ALLAN
DATE: 27 October 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 28 OCTOBER

Markets

Points you might cover are:

- (i) Hong Kong. Latest position (will update in morning).
Not keen on using Exchange Fund to buy equities;
- (ii) G5. G5/G7 Meeting when confident got something good to announce. Plans afoot: US budget deficit - more than \$23 billion (Baker telephone call); something on German interest rates. [Dollar rebasing].

BP

2. Possible points:

- (i) PNQ. (PM was v.complimentary about your performance).
Notable how all-party support for pressing on with issue;
- (ii) Contingency planning. Thinking about what might be needed to ease any market problems, assuming issue goes ahead. Maybe separate action for small investors and underwriters.

Public Expenditure Cabinet

3. We will be sending PM a speaking note for winding-up, [plus copy of your speaking note (when done!).]

- Batting order should be CST; yourself; all others; PM sum-up (as last year, excluding Lord Whitelaw's intro). Important to make sure spending Ministers make



clear what decisions Cabinet is endorsing (especially Lord Young on RDGs).

- You will cover Reserves, privatisation proceeds, planning totals, ratios and then general economic background.
 - Important that PM stresses that leaks could cause major difficulties for BP etc. Read out Ingham communique, and say no more must be said.
4. You might also indicate to the Prime Minister that you are reviewing the numbers in the forecast urgently, to make sure that they take account of the stock market fall as best as can be done now.

A C S ALLAN



FROM: A C S ALLAN

DATE: 3 November 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 4 NOVEMBER

The main points for your bilateral are.

Senior staff moves.

2. I understand from Nigel that Robert Armstrong has put a submission to the Prime Minister recommending the changes, but subject to Anthony Acland's agreement. Nigel feels this is not on: she will want to know Anthony Acland's views before she gives her approval. Peter has not yet had any further discussions with Anthony Acland, but may do so tonight or tomorrow (I am pressing Dick). I will let you know the outcome.

EST as Minister of State

3. You were going to have a word with the Prime Minister to put in a word for the Economic Secretary to be up-graded to Minister of State rank as soon as a vacancy becomes available.

TSRB

4. At some stage - and this could wait a week - you were going to raise with the Prime Minister the TSRB's next review/report. The main objective is to get her to speak to Robin Ibbs to stop him arguing for very large increases (which he reportedly sees as necessary to free-up the salary scales for the grades immediately below, with the aim of rewarding better management - or some such!). You are next seeing Lord Plowden at his Dining Group in December, and I am checking whether that is OK for the timetable or whether you should have a separate meeting before then.



Letter to Reagan

5. Charles Powell has spoken to Carlucci, who was - predictably - dampening about the idea of a further letter, especially one advocating tax increases. PM is inclined to think it would be best to hold fire until real need for an intervention becomes apparent (ie if things going badly with Congress) and then ring the President rather than write.

Markets/BP etc.

6. Nothing specific, but you may want to review the position.

AA

A C S ALLAN



FROM: A C S ALLAN

DATE: 11 November 1987

SIR T BURNS

cc Sir P Middleton
Sir G Littler**AIDE MEMOIRE FOR PRIME MINISTER**

... I attach a draft of the aide memoire for the Chancellor's bilateral with the Prime Minister this afternoon. I should be grateful for urgent comments.

A handwritten signature in black ink, appearing to read 'A C S Allan', with a long horizontal flourish underneath.

A C S ALLAN

LOOK FOR THE BRITISH ECONOMY

The British economy is sound and strong:

- (a) Autumn Statement (which made allowance for stock market fall) shows growth of non-oil economy at 3 per cent in 1988. No reason to revise that forecast down;
- (b) but very likely that inflation forecast of $4\frac{1}{2}$ per cent for Q4 1988 is too pessimistic: mortgage rates now look likely to be lower; the sterling/dollar exchange rate higher; and commodity prices weaker;
- (c) public finances are exceptionally strong (PSBR only £1 billion).

2. The stock market may or may not continue to fall for a time - markets often do follow trends for extended periods. But direct effects on UK small: "wealth effect" (ie consumers spending less because wealth reduced) not likely to be a major factor in the UK; and indirect impact via wealth effects elsewhere should not be large. [Figures about stock market movements/turnover in UK and elsewhere].

3. There is no serious threat of recession, providing we do not talk ourselves into one.

- (i) The stock market fall will have some effect in dampening activity in the US; but US economy has been growing strongly; and fall in interest rates and decline in dollar will provide some help to US industry;
- (ii) possible that our forecasts for world trade may be a little optimistic now; and this could mean UK current account a little worse than expected. But will have no problems financing that; and holding rate against the deutschemark preserves UK firms' competitive position against most important competitors (eg Jaguar versus Mercedes/BMW).

4. Greatest danger is that we will talk ourselves into believing that the world is plunging into recession. Particularly important that business and industry do not lose confidence; they must not be mesmerised by what is happening in the stock market but instead should take advantage of all the favourable circumstances which now exist.

Q1
This is draft / shall show to Terry etc tomorrow. Any comment now? AA

OUTLOOK FOR THE BRITISH ECONOMY

The British economy is sound and strong:

- (a) Autumn Statement (which made allowance for stock market fall) shows growth of non-oil economy at 3 per cent in 1988. No reason to revise that forecast down;
 - (b) but very likely that inflation forecast of 4½ per cent for Q4 1988 is too pessimistic: mortgage rates now look likely to be lower; the sterling/dollar exchange rate higher; and commodity prices weaker;
 - (c) public finances are exceptionally strong (PSBR £1 billion) ~~this puts us in very good position to take whatever action seems appropriate in the next Budget.~~ *only*
2. The stock market may ^{*or may not*} continue to fall for ~~some~~ ^{*a*} time - markets often do follow trends for extended periods. But direct effects on UK small: "wealth effect" (ie consumers spending less because wealth reduced) not likely to be a major factor in the UK; and indirect impact via wealth effects elsewhere should not be large. [Figures about stock market movements/turnover in UK and elsewhere].
3. There is no ~~serious~~ ^{*serious*} threat of recession, providing we do not talk ourselves into one.
- (i) The stock market fall will have some effect in dampening activity in the US; but US economy has been growing strongly; and fall in interest rates and decline in dollar will provide some help to US industry;
 - (ii) possible that our forecasts for world trade may be a little optimistic now; and this could mean UK current account a little worse than expected. But will have no problems financing that; and holding rate against the deutschemark preserves UK firms' competitive position against most important competitors (eg Jaguar versus Mercedes/BMW).

Greatest danger is that we will talk ourselves into believing that the world is plunging into recession. Particularly important that business and industry do not lose confidence; they must not be mesmerised by what is happening in the stock market but instead should take advantage of all the favourable circumstances which now exist.



FROM: A C S ALLAN

DATE: 11 November 1987

SIR T BURNS

cc Sir P Middleton
Sir G Littler**AIDE MEMOIRE FOR PRIME MINISTER**

... I attach a draft of the aide memoire for the Chancellor's bilateral with the Prime Minister this afternoon. I should be grateful for urgent comments.

Allen.

Some suggestions

T.B.

ACSA

A C S ALLAN

OUTLOOK FOR THE BRITISH ECONOMY

The British economy is sound and strong:

- (a) Autumn Statement (which made allowance for stock market fall) shows growth of non-oil economy at 3 per cent in 1988. No reason ^{yet} to revise that forecast down;
- (b) but very likely that inflation forecast of 4½ per cent for Q4 1988 is too pessimistic: mortgage rates now look likely to be lower; the sterling/dollar exchange rate higher; and commodity prices weaker;
- (c) public finances are exceptionally strong (PSBR only £1 billion). ^{revised}

2. The stock market may or may not continue to fall for a time - markets often do follow trends for extended periods. But direct effects on UK small: "wealth effect" (ie consumers spending less because wealth reduced) not likely to be a major factor in the UK; and indirect impact via wealth effects elsewhere should not be large. [Figures about stock market movements/turnover in UK and elsewhere]. *Cost of capital to companies will have risen and may affect investment plans; but offset to some extent by lower short and long term interest rates.*

3. There is no serious threat of recession, providing we do not talk ourselves into one.

- (i) The stock market fall will have some effect in dampening activity in the US; but US economy has been growing strongly; and fall in interest rates and decline in dollar will provide some help to US industry;
- (ii) possible that our forecasts for world trade may be a little optimistic now, ~~and~~ ^{and} this could mean UK current account a little worse than expected; but will have no problems financing that, ~~and~~ ^{and} holding rate against the deutschemark, ^{this} preserves UK firms' competitive position against most important competitors (eg Jaguar versus Mercedes/BMW); ~~and maintains stability, which reduces pressure of exchange market uncertainty~~

UK Growth will also be affected ^{to some extent} but impact likely to be small

- (iii) danger that dollar will go into steady decline if ~~there is~~ ^{there is} no agreement to maintain greater stability; and that requires action from US, Japan and Germany. Given this uncertainty over best interests served by E

4. Greatest danger is that we will talk ourselves into believing that the world is plunging into recession. Particularly important that business and industry do not lose confidence; they must not be mesmerised by what is happening in the stock market but instead should take advantage of all the favourable circumstances which now exist.

pm

OUTLOOK FOR THE BRITISH ECONOMY

The British economy is sound and strong:

- (a) Autumn Statement (which made allowance for stock market fall) shows growth of non-oil economy at 3 per cent in 1988. No reason from events since then to revise that forecast down;
- (b) but very likely that inflation forecast of $4\frac{1}{2}$ per cent for Q4 1988 is too pessimistic: mortgage rates now look likely to be lower; the sterling/dollar exchange rate higher; and commodity prices weaker;
- (c) public finances are exceptionally strong (revised PSBR only £1 billion).

2. The stock market may or may not continue to fall for a time - markets often do follow trends for extended periods. But direct effects on UK small: "wealth effect" (ie consumers spending less because wealth reduced) not likely to be a major factor in the UK; indirect impact via wealth effects elsewhere should not be large; cost of capital to companies will have risen and may affect investment plans; but offset from lower short and long term interest rates.

3. UK stock market now back around levels of a year ago, as is Wall Street. By contrast, stock market in Japan still well above a year ago, while in Germany and France well below.

4. There is no serious threat of recession, providing we do not talk ourselves into one.

- (i) Stock market fall will have some effect in dampening activity in the US; but US economy has been growing strongly; and fall in interest rates and decline in dollar will provide some help to US industry;
- (ii) possible that our forecasts for world trade may be a little optimistic now. This could mean UK current account a little worse than expected; but will have no problems financing that; effect on UK growth will be small;

(iii) some danger of continued fall in dollar. Will continue to press for G7 action to avert that. Given uncertainties our best interests served by holding rate against the deutschemark; this preserves UK firms' competitive position against most important competitors (eg Jaguar versus Mercedes/BMW); and reduces uncertainties for industry.

5. Greatest danger is that we will talk ourselves into believing that the world is plunging into recession. Particularly important that business and industry do not lose confidence; they must not be mesmerised by what is happening in the stock market but instead should take advantage of all the favourable circumstances which now exist.

STOCK MARKET INDICES CLOSE 10/11/87

% change on

Index	a) year earlier	b) 1987 high (date of high)	c) 15 October 1987
FTSE 100	- 5.0	- 35.6 (16 July)	- 31.6
Dow Jones Industrial	- 0.4	- 31.0 (25 August)	- 19.6
Nikkei Dow	+ 32.4	- 18.6 (14 October)	- 12.8
CAC General (France)	- 28.0	- 40.7 (26 March)	- 25.4
Commerzbank (Germany)	- 39.5	- 40.8 (17 August)	- 35.8
Hang Seng (Hong Kong)	- 7.9	- 48.2 (1 October)	- 44.7
All Ordinaries (Australia)	- 14.2	- 47.8 (21 September)	- 43.9



FROM: A C S ALLAN
DATE: 24 NOVEMBER 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 25 NOVEMBER

Main points for your bilateral are:

Markets/G7 etc

US budget deal; weekend trip to Bonn; prospects for G7; markets. (In spite of scepticism, markets seem to have received US budget deal reasonably well.)

Prime Minister's interview with the FT

I am not sure how much you will want to rake through this. But it would at the least be helpful to get the Prime Minister to follow the agreed line for a bit (until her next FT interview?!)

Sir D Nickson and British Steel

You said you would discuss with the Prime Minister whether it was appropriate to bring David Nickson into your confidence, using Monday night's dinner as an opportunity; and if so whether it should be you, the Prime Minister or David who should approach him. I have mentioned this to David, who was attracted by the idea, but thought it was something you and the Prime Minister should discuss.

European Council and future financing

See note by Andrew Edwards in the folder.

A C S ALLAN



FROM: A C S ALLAN

DATE: 7 December 1987

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: TUESDAY, 8 DECEMBER

Quite a few points to discuss.

Markets/G7 etc.

2. You can report to the Prime Minister where you have got to on G7. And the Prime Minister is still pretty nervous about intervention - I think David will brief her to support doing more in deutschemarks.

New Coinage

3. Note in folder. Don't forget to take the coins!

Ibbs' Next Steps

4. You may want to have a word about your minute and Robert Armstrong's.

Health

5. No note from the Chief Secretary yet since he is seeing Mr Newton tonight. I have asked Jill to make sure we get a note before your bilateral.

Your car

6. This all seems to be going through, though the Government Car Service have not yet said how much they would want to charge us for the Speaker's Jaguar. You will need to get clearance from the Prime Minister, but this probably can wait.

A handwritten signature consisting of the letters 'AA' in a stylized, cursive font.

A C S ALLAN



FROM: A C S ALLAN
DATE: 12 JANUARY 1988

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 13 JANUARY

KLO

Quite a few topics - probably not time for all of them.

Markets

2. No doubt much on the Prime Minister's mind. Will be further opportunity to discuss this at meeting next week (with Peter, Terry and Brian Griffiths present) - though we certainly want to avoid that meeting being dominated by markets. Margaret O'Mara's note in folder sets out facts on intervention.

Reappointment of Governor

3. When you last discussed this with the Prime Minister she asked whether there was any scope for appointing the Governor for a period of less than 5 years. The answer is that the Act provides for a fixed 5 year term (and this was followed for O'Brien and Cobbold). But the Governor will no doubt be amenable to going early if that is what the Government wants.

4. The timing will be dependent on the choice of the next Deputy Governor. That needs to be taken forward reasonably quickly (George Blunden is talking of going in early 1989), but the urgent action for now is for No.10 to press ahead with reappointing the Governor (getting the Palaces agreement etc).

Date for 1988 Budget

5. See note in folder. It would be possible to move the Budget to 22 March, but Michael and Peter think it best to continue to flaunt the Roman gods.

As Centre Council

BP/KIO/BRITOil etc.

6. Chance to bring the PM up to date: FCO and BP still far too relaxed about KIO stake; no question of seats on Board. BP likely to get more than 50% of Britoil; what should Government do then?

Forestry

7. See note by Nick Monck in folder.

AA

A C S ALLAN



FROM: A C S ALLAN

DATE: 18 April 1988

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: TUESDAY 19 APRIL

The main points for tomorrow are markets (following your markets meeting with the Bank in the morning); and

Washington meeting

2. Among the points you might cover are:

G5/7. Indicators/commodity prices. Reaffirmed 23 December. (I don't imagine you will want to raise either Balladur proposals, or Poehl's demarche on intervention in deutschmarks).

Baker. Agriculture/GATT. Donnelly/NI. US elections etc.

Nigeria.

Your debt initiative. Progress/prospects for Summit.

Other points. ESAF; middle income debtors.

Revenue investigations

3. The point Tony Battishill mentioned to you.

A handwritten signature in blue ink, consisting of stylized initials 'AAS' followed by a long horizontal stroke.

A C S ALLAN



FROM: A C S ALLAN

DATE: 10 MAY 1988

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 11 MAY

A varied list of topics, in addition to anything on markets.

European Monetary Integration

To be discussed at Lubeck this weekend. Paragraphs 19 to 26 of David Peretz's note for Thursday's meeting provide a rather long-winded version of the suggested line to take. The main points to make to the Prime Minister are

- i. No question of our signing up to a European Central Bank or single European currency. Main aim is to bat that off into the long grass, but not to a group of "wise men". Trying to stop it being on Hanover agenda, but probably won't succeed.
- ii. A major UK objective is to get full freedom of capital movements, and the ending of all exchange controls.
- iii. We want to encourage the proposals on increasing cross-holdings of currencies, and on the development of the private ecu (eg by getting more Community transactions carried out in ecus; more intervention in ecus; and more official borrowing in ecus).

Tax Approximation

Another ECOFIN subject. You might want to warn the Prime Minister that there is some doubt about the legal position on unanimity



post-1992, and you will be consulting the Law Officers. On the Cockfield proposals, you will be ~~running~~ ^{developing} the line in your Konigswinter speech.

Director General of NEDC

To mention that we are advertising the post soon - see Peter's note.

Tokyo Stock Exchange

To bring the Prime Minister up to date on the latest - mostly rather unsatisfactory - developments.

Yugoslavia

To let her know the bridging loan has been agreed.


A C S ALLAN



FROM: A C S ALLAN

DATE: 1 JULY 1988

Tony D
 purp i
 PM Walters
 box
 A/S

CHANCELLOR

INTEREST RATES

This meeting is in the diary because the Prime Minister was fired up by Alan Walters today (Friday). She wants to press for a 1% move on Monday.

2. The Walters' thesis was that our present problems were all the fault of last year's intervention. We must push up interest rates to at least 11%. We should do it as quickly as we can. And we should have none of this fiddling about with $\frac{1}{2}\%$ moves.

3. Paul has had a go on the virtues of moving gradually. She wasn't convinced: one of her lines was that we had anyway been planning to do another $\frac{1}{2}\%$; the Germans had now done $\frac{1}{2}\%$ and so we need to do another $\frac{1}{2}\%$ on top (this, of course, ignores the fact that the rise in the German discount rate was of symbolic significance only, and in part validated a move in the repo rate while we were in Toronto).

4. You may have trouble talking her out of doing something on Monday, though you may hold it to $\frac{1}{2}\%$.

A handwritten signature consisting of the letters 'AA' in a stylized, cursive script.

A C S ALLAN



FROM: A C S ALLAN
DATE: 12 July 1988

CHANCELLOR

Cancelled

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 13 JULY

John Flemming for Executive Director

One minor point you might get out of the way quickly is to secure the Prime Minister's agreement to John Flemming filling the Executive Director vacancy created by the retirement of Derek Van der Weyer. I have warned Paul about this.

Markets

2. It may be a little clearer by tomorrow afternoon whether or not we should do the next half point on Thursday or Monday.

Public Expenditure Cabinet

3. This is the main thing to discuss:

- (i) You have amended the Cabinet Papers to take on all her comments - though she may still feel you should have been alarmist about the current account.
- (ii) Is she content with the Ingham Communique?
- (iii) You can take her through the speaking note we have provided. The main point may be to head her off going on too much about the current account.
- (iv) It would be very helpful if she also used some stern words about the need to maintain secrecy etc.



Forecast

4. You may find she wants to talk about the forecast - which she saw over the weekend. But the opportunity for a substantive discussion on this is really next Monday at her Seminar.

ACSA

PP

A C S ALLAN

CONQUEROR



FROM: A C S ALLAN

DATE: 14 September 1988

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: THURSDAY 15 SEPTEMBER

This will be your last bilateral until Thursday 29 September: the Prime Minister is off to Belgium and Spain from Tuesday till Friday next week, and you are then in Washington until the following Wednesday. Several potential topics:

- (i) Barlow Clowes. Lord Young will probably not be writing round until Friday, but he has a bilateral with the Prime Minister immediately before you and she may want a brief preliminary word with both of you.
- (ii) ECOFIN. In Crete this weekend. Main item will be indirect tax approximation.
- (iii) Delors Group on EMU etc. We should have had the Governor's letter before your bilateral.
- (iv) Berlin. You could take the Prime Minister through the likely themes^{*}: not much from G5/7; continue existing strategy for middle income debt (but Argentina, Nigeria, Japanese proposals etc); get Sub Saharan Africa sewn up, following Paris Club this Thursday; your speeches.
- (v) Markets. Generally calm, but dollar strong after US trade figures.

(* I presume letter to wait till you
minute PM on IMF quotas, rather
than raise now?)



(vi) Public Expenditure. You and the Chief Secretary probably want a session with the Prime Minister and Mr Parkinson shortly after you get back from Berlin, when the picture will be a little clearer as the Chief Secretary by then will have completed his first round of bilaterals.

A C S ALLAN



FROM: A C S ALLAN

DATE: 31 January 1989

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY 1 FEBRUARY

Budget

There are various points arising from the Dorneywood Dinner:

(i) Numbers

The Prime Minister is rather confused about how the figures add up, and has been asking Paul for a table. In due course you will be sending her a full note, but for now the easiest thing might be to take her through our Scorecard. You can lend her the spare copy in the folder for the duration of the meeting (perhaps Table 1 only).

(ii) Timing of Stamp Duty introduction

I have commissioned a note on this.

(iii) Life Assurance

The Prime Minister has expressed some general worries to Paul about the anti-savings nature of this, though she did accept it at Dorneywood. You are not in a position yet to fill in the details. (The Revenue note is in the box, but not essential reading before PM bilateral.)

weeded, but available if you want it.

(iv) Payroll Giving

I have commissioned a note on this too.



(v) CGT on Gifts

Michael Cayley's note discusses hard cases rather briefly. Farmers are let out, but agricultural landlords are caught: to let them out would risk conceding CGT retirement and rollover relief to them, which would cost £40 million, and might lead to pressure for other exemptions.

G7

3. The main issues to be discussed are pretty clear:

(i) World Economy

Must stop US backsliding on Budget deficit and blaming others. Intemperate Mulford line. May be some tensions between Administration and Fed on US interest rates, and French will join US in concern about German monetary policy. Dollar strength will worry Japanese. Intemperate Mulford line.

(ii) Debt

Lots of pressure for new solutions. Prime need is to find effective way to put pressure on commercial banks to bite the bullet. Ending of "gapology" would help. May be scope for channelling IFI money in support of debt buybacks or debt/equity swaps.

(iii) IMF quotas

Now not likely to be settled in April, so no early decision on UK ranking in the Fund.



CDU Economic Council 17 October

4. Very close to Mansion House on 19 October. What with Party Conference the week before and the Autumn Statement only a few weeks later, this would be a pretty good nightmare from the diary/speechwriting point of view.

Rating Appeals

5. See Fellgett's note. It looks as if a scheme along lines suggested at PM's meeting is possible, with transitional arrangements being based on list at date of announcement. But this is ^{, apparently,} much less satisfactory than curtailing appeals (100 versus 250 valuers saved). LG advice is to press also for appeals to be curtailed. If you want to do that, it might be worth putting down a marker at the bilateral that this is all proving very difficult and you will probably want to return to the charge. But I'm very doubtful.

A C S ALLAN

DDRB Chairmanship

6. As discussed at Prayers.



FROM: A C S ALLAN
DATE: 28 FEBRUARY 1989

CHANCELLOR

BILATERAL WITH THE PRIME MINISTER: WEDNESDAY, 1 MARCH

Quite a heavy agenda.

Markets

2. From what Paul tells me, the Prime Minister is very keen that we should intervene heavily if necessary to support sterling.

County NatWest

3. Your minute to the Prime Minister was deliberately brief. She may want to see the Bank's letter, and I am checking whether you can give her a copy. Among the points you might make are:

(i) position is pretty confused, and it is clearly right to wait for the Inspectors' report.

(ii) The Bank don't come out very well: they didn't check "legal advice"; they didn't concern themselves with the false market question; they didn't consider "fitness and properness", but just the extent of CNW's exposure; they didn't refer the matter to the BBS; and they didn't warn DTI/SE.

(iii) Nonetheless, DTI have known the essential points about the Bank's involvement since they received the Wilkinson Report last May. But it is only now that they have woken up to the problem and started jumping up and down.



(iv) The offence of "conspiracy to create a false market" is an odd one. Phillips and Drew's advertisements saying the issue had been successfully placed do seem highly misleading, and might leave them open to action for damages. But the criminal offence is going to raise all sorts of difficulties vis a vis other City practices.

(v) The new stuff from the Inspectors shows that the Wilkinson Report was a whitewash: not untruthful, but designed to head off a DTI investigation. The new material also shows that no decent legal advice was ever taken, though people at CNW seem to have assured all and sundry that it had.

CSO

4. The Prime Minister should have read your minute. I am a bit concerned about how all this is to be taken forward: we have not yet had any approaches from No.10 about a Ministerial meeting, yet we want to announce the conclusions soon. Subject to the outcome of your bilateral, I shall press No.10 for an early meeting.

Budget

5. You can explain the decisions on the NIC package, in particular no increase in the UEL and a cut in class II rates for the self employed. You ought perhaps to bring her up-to-date on the arithmetic: the first year cost of just under £2 billion will not be a surprise, but the second year cost of £4½ billion may be.

6. You can explain that, as a result of last week's bilateral, you have looked further at CGT on chattels, especially following the abolition of gifts relief. As a result, you have decided to double the existing £3,000 limit.



7. I think you need to tell the Prime Minister you have reconsidered the £60,000 ceiling for tax privileged pensions, and decided not to raise it. The main points you might make are:

(i) £60,000 is five times average earnings, and only 50,000 people in occupational schemes now earn more than that.

(ii) There is complete protection of existing rights, so no current civil servants will be affected at all.

(iii) A limit as high as £100,000 would give all the wrong signals.

(iv) The total effect of the package is better for labour mobility. The pension rules are being freed up, so that, for example, employers can offer more attractive packages, tailored to suit the individual. And the major boost to personal pensions - which will be the first part of the package to have a major impact - is very good for mobility: indeed, the "personal pensions loophole" is a positive encouragement to mobility.

(v) Restricting tax privileges is all part of the follow-up to cutting the basic rate to 40%. There is no reason now why people with large salaries should not save out of post-tax income.

Delors Committee

8. I have sent Charles Powell a copy of the Governor's draft, and the Prime Minister may want to discuss with you.



RPIAC

9. The No.10 Policy Unit have got a bit jumpy about the transitional arrangements for introducing the Community Charge into the RPI. They are particularly concerned about the "index household effect" (paragraphs 64 and 65 of the Report). I had thought, from the advice you had had earlier that this effect (which adds between 0.1 and 0.2% to the RPI) was an inevitable consequence of the switch from rates to the Community Charge: but it does appear that there was an option of stopping this effect feeding through. However, given the views of the RPIAC I can't see how the Government could overrule them on this.

ACSA

A C S ALLAN



FROM: A C S ALLAN
DATE: 20 March 1989

A handwritten signature in dark ink, appearing to be 'P. J.' or similar, located in the top right corner of the document.

NOTE FOR THE RECORD

cc Sir P Middleton
Sir T Burns
Mr Wicks

BILATERAL WITH SIR ALAN WALTERS

Sir Alan Walters saw the Chancellor for about half an hour at 12.15pm on Friday.

Budget

2. Sir A Walters commented that the Budget had gone down very well; he thought the approach had been exactly right. He particularly welcomed the NIC reform and the abolition of the pensioners' earnings rule.

3. Sir A Walters said that studies in the US indicated that the marginal cost (including both the administrative costs and the dislocation and distortion costs) of an additional \$1 in taxes was at least \$1.40. He saw no reason why the cost in the UK should be any lower. This was a powerful argument for lower taxes and for debt repayment: for example, a saving of £2 billion in nominal debt interest would produce a real saving of £1 billion. He said he would send the Chancellor an article by Ed Browning on the derivation of these estimates. The Chancellor commented that while he was happy to be able to take the opportunity to repay debt, he did not feel it made sense to regard debt repayment as an objective in itself; it would be far more beneficial to have progressive reductions in taxation. Sir A Walters said he entirely agreed with this.

Return to No.10

4. Sir A Walters said he had talked to Sir P Middleton about his role when he returned to No.10 in May. He was planning to work closely with Sir P Middleton and Mr George, and thought that this



should work perfectly satisfactorily, as it had done in the early 1980s. The Chancellor accepted that the previous arrangements had worked satisfactorily. The only difference now was that Sir A Walters had become much more of a public figure and would be much sought after for comment. It was essential that he made it clear from the outset that this was not on. Sir A Walters agreed: his line would be a firm "no comment". He added that he had previously done some briefing on a background basis, but thought the rules of press involvement had changed and this would no longer be possible. The Chancellor agreed.

Capital Gains Tax

5. Sir A Walters commented that in the US individuals paid capital gains tax on owner-occupied housing, but with rollover relief and with a large exempt slice for those over 55. He wondered, however, whether this would be politically possible in the UK. The Chancellor thought it would be worth looking at.

6. Sir A Walters added that the pressure in the US for a substantial cut in the capital gains tax rate was strong: he thought the Administration would respond in some way, though the details were not yet clear. The Chancellor noted that the UK system was less burdensome than in the US, because of indexation and the £5,000 exempt slice (which would be available separately to husbands and wives after Independent Taxation). Sir A Walters took these points. Indexation had been looked at in the US, but had floundered on complicated legal problems in relation to trust properties.

US Administration

7. Sir A Walters commented that Brady was creating an unfavourable impression in Washington, partly by being very standoffish from the Washington establishment. He thought both Greenspan and Boskin were excellent.

International debt

8. Sir A Walters was sceptical about the Brady/Mulford debt proposals, though he would want to study the details. He was very critical indeed of the World Bank loan to Argentina, which had sent appalling signals. He thought, however, that the political pressures in the US would lead to them making major contributions to reducing Latin American debt, and they seemed to have persuaded the Japanese to follow suit.

A handwritten signature in black ink, appearing to read 'A C S Allan', with a large, sweeping flourish at the end.

A C S ALLAN

Principal Private Secretary



FROM: JOHN GIEVE

DATE: 11 OCTOBER 1989

JGP

CHANCELLOR

BILATERAL WITH PM

There are three main subjects for discussion and two other possibilities:

1. EMU;
2. Markets;
3. Mansion House speech;
- [4. Balancing item;]
- [5. Pension fund policy.]

EMU

... I enclose the draft paper as amended together with Nigel's minute to you which set out some of the tactical considerations. Your main aims are:

- (a) to get her approval of the general outline of the paper; and
- (b) to agree on the timetable for publication and in particular whether and, if so, when to circulate and discuss it with other colleagues.



... 3. I gather she will have seen Alan Walters' ideas (see Odling-Smee's minute enclosed). Since these include a common currency and a European central bank they hardly meet the specification. However, she may well find the paper's endorsement of the ERM difficult to stomach. Perhaps the best argument you can present is the tactical need to put on the table an alternative which could attract some support and help to slow down the race to a new treaty.

4. On next steps, it is not clear which other Ministers she wishes to involve. You will want to avoid OD(E) and keep it to a small group: at most the Foreign Secretary, Lord President, and Secretary of State for Industry. I will send a copy of the present draft to Major's office on Monday. You might offer to discuss it bilaterally with Ridley during her absence and before any meeting in the week she returns. If it looks on, you might try to avoid another meeting altogether. The key thing is that if the paper is to have any impact in Europe it must be circulated in good time before briefing lines are settled.

I also enclose the Delors Report & the Madrid Communiqué.

Markets

... 5. I enclose Sir T Burns' note on the effects of pursuing a policy of free floating. You will see that he has mentioned the ready reckoner effects in his covering note to you but has left them out of the other note which you could give the Prime Minister if you were so minded. *abmyreq-12*

6. I gather that she will have seen over the weekend a note by Alan Walters which takes the line that we are in for a nasty recession; that the right level of interest rates for domestic reasons would be 12 per cent and that we have become trapped into



higher interest rates by our attachment to a stable exchange rate; that we will be forced in due course to let the pound float freely because speculative pressures are bound to build up in advance of an election and the possibility of a Labour victory; and that the best way forward would be to announce now a three year programme under which interest rates would be set entirely in relation to domestic monetary conditions, that the pound would float freely and the inflation rate would be brought down to the European average; he suggests (rather unconvincingly) that this could be seen as a transition towards the possibility - but not certainty - of ERM entry at the end of three years. [He is now in America and indeed left before the EMU paper was finalised so he has not seen or commented on it.]

7. The PM will be hotly opposed to any further increase in interest rates and will therefore, I expect, accept the role for intervention.

8. The PM will have seen the export note but not the first guess of the trade balance. We have not yet let No.10 know this exists. However we have said that we will try to get an early feel for the figures in view of her imminent departure and you might mention £1.5 billion in round terms.

Mansion House

9. I gather we normally send this to her in advance. I think the best approach may be to offer to send to her in Kuala Lumpur a copy of the draft prepared to be by officials following your meeting on Monday (which will probably come up on Tuesday). I imagine you will work on this on Wednesday and Thursday and it will be too late at that stage to send anything to her.



10. You will want to warn that a major section is likely to be on EMU.

Other

... 11. There is very unlikely to be time for these but I include the papers since they will be in her folder.

Jc

JOHN GIEVE

PLP

PRIME MINISTER BILATERAL

Following the discussion with others on public expenditure, you have a genuine bilateral timetable. The subjects that are likely to come up include the following.

Markets

2. I include the papers you had for tonight's meeting.

Grades 5 to 7

... 3. I attach your minute and the earlier internal papers. The main issues are whether to try to reach a settlement (perhaps on a 20 month basis) or to impose and, if as you propose the latter, at what level to do so.

Balancing item

... 4. The Prime Minister may want to talk to you about the enclosed papers which you have seen already.

Deputy Governor

5. You wanted to mention to her the proposal to replace the current Deputy Governor at the end of February before anything was committed to paper.

Wider Share Ownership

... 6. I enclose some correspondence with Lord Joseph. The Policy Unit objected to the draft reply, but the Prime Minister agreed to send it but might wish to raise with you the possibility of an enquiry into the ownership of pension funds.

X Yorkshire Bank

JL

JOHN GIEVE