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218

PREM 19/1710

PRIME MINISTER'S MEETINGS WITH THE  
CHANCELLOR OF THE EXCHEQUER

ECONOMIC  
POLICY

OCTOBER 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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<del>25.2.86</del>							
<del>4.3.86</del>		PT 1					
<del>4.4.86</del>		ENDS					
<del>23.4.86</del>							
<del>29.4.86</del>							
<del>13.5.86</del>							
<del>21.5.86</del>							
<del>4.6.86</del>							
<del>11.6.86</del>							
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<del>21.10.86</del>							
<del>23.10.86</del>							
<del>29.10.86</del>							

PART 1 ends:-

DN to PM. 29/10/86

PART 2 begins:-

DN to PM 3/11/86

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

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

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

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

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

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

---

DW

DAVID NORGROVE  
~~OCTOBER~~  
29 November 1986



10 DOWNING STREET

Prime Minister *ms*

The figure from  
1 July would be over  
£2.3 bn.

*U*  
*B* I think you might like  
to change at your next  
bi-lateral.

(We've noticed this,  
but how many do we  
miss?)

*DRS*  
23/10.

SECRET

36

**Foreign Exchange Markets: Evening Report**

date: 23 October 1986

Previous close		Today		% change \$ / currency since Plaza
		opening	close	
67.6	£ ERI	67.7	67.5	-17.7
1.4335	\$/£	1.4330	1.4232	+3.6
2.9441	DM/£	2.9458	2.9381	-27.3
222.91	Yen/£	224.10	224.76	
1.3655	ECU/£	1.3671	1.3643	
109.2	\$/ERI	-	109.9	-21.3
1.9940	DM/\$	1.9880	1.9942	+42.4
155.50	Yen/\$	156.33	157.93	+51.1
1 1/4	<i>3 month interest rates</i>			
6	UK interbank £	1 1/4	1 3/8	
4 9/16	Eurodollars	6	6	
	Euromark	4 9/16	4 9/16	

Brent oil prices Nov \$ 14.20 Dec \$ 14.75 Jan \$ 14.95 Nov \$ 14.10 Dec \$ 14.55 Jan \$ 14.75

**Market Comment**

Sterling fell after worse than expected September trade figures were released at 11.30, breaching successive key chart points against the dollar. The dollar firmed throughout the day, particularly against the yen as Japanese investors were attracted to the latest US bond auction. Three US economic statistics released today were much as expected but there was a strong durable goods figure which supported the dollar.

Since the close the dollar has strengthened further against the DM and yen; sterling is steady and therefore gaining on the DM. Rates at 5.40:

\$1.4225 DM2.8470 DM/\$2.0 ¥/\$158.50

at 1945 1.4235 DM 2.8535

*John Fultz*

**UK reserves transactions (\$ million)**

(a)	Today	This month so far	Total since 1 April '86	(b)	Estimated end-month position
	-17	-549	+470	Market intervention	-831
	-39	-460	-1919	Off-market transactions	-549
	-56	-1009	-1449	Total	-1380
				Net borrowing	+325
				Valuation changes (EMCF)	-92
				Total change in reserves	-1147
(a) Spot and forward transactions on a done date basis				Change in the forward book	-
(b) Spot transactions only on a value date basis, as in published figures					

**Other countries market intervention (\$ million equivalent)**

Germany —	US —	Denmark —
France —	Japan —	Holland —
Italy +36 \$	Ireland -28 (DM)	Belgium —

Hong Kong	Previous 21/10/86	Today	Change
Hong Kong dollar	7-8030	7.8030	unchanged
Hang Seng Index	2225.08	2254.79	up 30 points
Overnight interbank rate	3%	3 $\frac{1}{4}$ %	up $\frac{1}{4}$ %

Note 22/10 was a holiday.



DOMESTIC MARKETS: CLOSING REPORT FOR:

Thursday 23rd October, 1986

## MONEY MARKETS

Interest rates	O'night	7 days	1 month	3 months	12 months
£ Interbank	11 1/2 (	10 7/8 ( - )	11 1/8 ( - )	11 3/8 (+ 3/32)	11 7/16 (+ 5/16)
Euro \$	(	5 15/16 (- 1/16)	6 ( - )	6 ( - )	6 3/16 ( - )
Differential	(	4 3/16 (+ 1/16)	5 1/8 ( - )	5 3/8 (+ 3/32)	5 1/4 (+ 5/16)

Bills (discount rates) (days)	Band 1 (0-14)	Band 2 (15-31)	Band 3 (32-63)	Band 4 (64-91)
Eligible bank bills	10 5/16 - 13/16 (- 1/16)	10 5/8 - 1 7/8 ( - )	10 7/8 - 3/4 ( - )	10 7/8 - 3/4 (+ 1/16)
3 month Treasury bills	10 7/8 (+ 1/4)			3 month Local Authority bills 11 1/4 (+ 1/8)

## Bank money market operations (£M)

Bills:	Band 1	Band 2	Band 3	Band 4
Dealing rates	10 7/8	10 3/16	10 3/4	10 11/16
Official Purchases (+)	+ 20	+ 250	+ 109	+ 223
Total bills	£ 602 m	bought/sold		
Repurchase	£ — m	unwinding on	at	
Lending	£ 40 m			
Total operations	£ 642 m	against shortage/surplus	£ 700 m	

## STOCK MARKET

FT Ind-ord 1249.9 (-12.5) FTSE 100 1572.5 (-17.1) FT Govt Securities 82.56 (-0.34)

## Gilt Edged Market

Authorities bought/sold £ 5.5 m (net)

(Change from opening)	Price £	Yield
Shorts	- 7/16	+ 0.12
Mediums	- 1/2	+ 0.09
Longs	- 11/16	+ 0.10

Gilt Futures DEC Long Contract Open 110.24 Close 109.14 Volume 18447  
 Gilt Futures DEC Short Contract Open 96.43 Close 96.00 Volume 44

## FOREIGN EXCHANGE

£ Effective 67.5 (-0.1)  
 \$/£ rate 1.4232 (-0.0103)  
 DM/£ rate 2.8381 (-0.0060)

## US RATES

3 month CD's 5.80 (-0.05)  
 10 yr Tsy Bond 7.49 (-0.05)  
 20 yr Tsy Bond 8.08 (-0.07)

Gilts opened firmer with shorts up 1/16, mediums 1/8 and longs 1/4. Prices made early progress but the trade figures were well below the market's expectations and prices fell back and at the close shorts were down 3/8, mediums 7/8 - 1/2 and longs 3/4. There was little change in index-linked. After a cautious start, equities lost further ground on September trade figures (deficit of £877m) and the subsequent fall in sterling.

3. Adishov

GILT-EDGED MARKET : DETAIL

Transactions basis, cash values (£ million); sales + purchases - *end September and calendar October.*

ISSUE DEPARTMENT: MARKET TRANSACTIONS

Today

1. Gross sales shorts
2. " " mediums
3. " " longs and undated
4. Calls on part-paid Stock sold earlier
5. Buying in, other than next maturities
6. CRND: Market transactions
7. Total 'gross' sales
8. Buying in of next maturities
9. Redemptions
10. Total transactions with market

+ 2.6	+ 889.6
+ 108.2	+ 1619.4
+ 2.3	+ 939.9
-	-
- 107.2	- 1742.4
- 0.6	- 18.8
+ 5.3	+ 1687.7
- 0.2	- 213.3
-	- 1.9
+ 5.5	+ 1472.5

PRICES/YIELDS OF GILT-EDGED STOCKS

Par yield curve at close last night  
at previous close

5 years	10 years	20 years
10.936	10.951	10.588
11.038	11.049	10.675.

Representative Stocks  
(change from yesterday's close)

- 11% Exchequer 1991
- 9 3/4% Exchequer 1998
- 11 3/4% Treasury 2003/07
- 2% Index-linked 1988
- 2 1/2% Index-linked 2011

Price Yield

99 20/32 (- 12/32)	11.10	(+0.10)
92 12/32 (- 10/32)	10.93	(+0.05)
107 18/32 (- 20/32)	10.81	(+0.08)
122 2/32 (- 2/32)	4.71	(+0.05)
101 30/32 (+ 6/32)	3.77	(-0.01)

TAP STOCKS AND RECENT ISSUES

3% Treasury 1991.

Price Yield Issue dept  
79 12/32 (- 12/32) 8.57 (+0.12) 287.

Certificates of Tax Deposit: Purchases  
" " " : Surrenders

Rates on surrender for tax  
< 1 1<3 3<6 6<9 9-12 mnth

" " " " "

KNOWN FUTURE GILT-EDGED TRANSACTIONS

Part Payments (+)	Redemptions/expected buy-ins (-)
Banking _____	_____
Banking _____	_____
Banking _____	_____

Sales required to meet 'Gross' sales Target for *end September (2500) and calendar October*  
£m 812

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

It would help if you were to open the bilateral by saying how ~~in~~valuable you had found the Seminar on Sunday and that you would like to have further meetings, though shorter, more frequently than in the past. You could say they help you to keep more closely in touch with the economic background which helps not only in discussions about interest rates but also at Question time and in other meetings. (There is in fact a good case for another meeting in December, before the meeting of Treasury Ministers and officials at Chevening in January, and for a longer session in February as the Budget proposals begin to firm up. This year you gave a dinner in January, which was both too early and too late.)

Otherwise:

- (i) the markets, as ever. They are still shaky, as today's sharp movements have shown.
- (ii) BGC Board pay. The Chancellor will raise this. BGC have apparently decided to double their Board pay after privatisation. This would have to be disclosed in the prospectus and would cause a strong press reaction, as well as encouraging higher pay claims from BGC employees. The BGC Board should either postpone a final decision until after flotation, or, less good, announce it very soon so that it is out of the way before the pathfinder prospectus is published at the end of the month.
- (iii) You might touch on teachers' pay. We obviously cannot afford option (i) or even option (ii). But the Chancellor will have to give ground from option (iii) and may have to go a little beyond the £1<sup>1</sup>/<sub>4</sub> billion: there would be something now to be said for the Government to be able to claim that it had

SECRET

2

gone beyond its final offer. To do that has costs,  
but it might have a disproportionate benefit in  
showing how reasonably and generously the  
Government had behaved.

*DW*

DAVID NORGROVE

21 October 1986

VSCABQ

SECRET

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

There are three obvious subjects:

- (i) The markets.
- (ii) Teachers' pay. (The Chancellor at MISC 122 mentioned staging of four per cent per annum for four years to make Main's 16 per cent. I simply do not think that is realistic. Part of the Main 16 per cent would be next year's "ordinary" pay increase for teachers, and four per cent a year if it superseded ordinary pay increases would seem derisory. If it did not, it would be too expensive.)
- (iii) The Mansion House speech. I hope to be able to let you have the latest version, which will still be scrappy, very early tomorrow. I have discussed with the Chancellor's Private Secretary what it contained in the latest draft which was still being amended heavily at 2130 this evening. It seems innocuous, but apparently the draft includes nothing at all on the EMS. I think this would seem to commentators a striking omission even if the Treasury repeated the standard line when journalists rang them up. I suggest that the speech should include a couple of sentences (spoken through gritted teeth) to say that the EMS of course offers advantages and disadvantages but that the Government considers that the time is not yet ripe to join.

DAVID NORGROVE  
15 October 1986

EL3BLI

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The markets will of course be the main subject for discussion. It is in many ways quite surprising that sterling has moved down with the dollar. There seems no apparent reason for that. But equally it would surely be quite wrong at present to respond by an increase in interest rates.

You could also mention to the Chancellor your bilateral with Mr Baker. There is a meeting arranged after the Party Conference for you to discuss with him and Mr Baker a paper about his proposals.

DRW

David Norgrove

19 September 1986

At 1640 sterling was

£1.4590

at 2.96 1/2

down from the opening today.

3 month interest rates were just over 10 1/4 %.

At 1600 the stock exchange was up 15 points and Wall Street has opened strongly.

DRW  
22/9

PRIME MINISTERMEETING WITH THE CHANCELLOR: 15 SEPTEMBER

Three topics:

- (i) recent volatile markets and soft bond markets in many countries; fears of re-emerging inflation;
- (ii) the prospects for the G10, Interim Committee, IMF annual meetings;
- (iii) the Chancellor's wish that the Governor should be made a Privy Counsellor.

*Mark Samuel*

PP. DAVID NORNGROVE

12 September 1986

BM2AUL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You will want to ask the Chancellor how he sees the prospects for interest rates now. The possibility of a reduction by the Germans or the Japanese seems to be receding. Rising long term interest rates in several of the major markets, including our own, are a disturbing factor and the sharply rising prices of gold is also a little worrying, though a good part of the increase must be due to the threat of a cut in South African supplies. The money numbers knocked the gilts market down by a 1/2 to 3/4 of a point today. On the less gloomy side, the UK's floating rate note issue was very well received. The amount was increased from \$3b. to \$4b. and the leaders of the issue said they could have raised as much as \$5b.

You might ask the Chancellor about the prospects for the IMF annual meeting and related events (G10, interim committee, etc). The expectation is that they will be quiet.

The Chancellor intends to suggest that the Governor should be made a Privy Counsellor.

DW

David Norgrove

9 September 1986



CONFIDENTIAL

PRIME MINISTER

You have an hour with the Chancellor on Monday at 1700. This is the opportunity for you to discuss with him the education paper by John Anson, a Deputy Secretary at the Treasury. You also wish to have a more general discussion about the current economic position.

There is one particular point the Chancellor will wish to raise with you. I understand that he has already alerted you to the possibility of the Government doing more foreign currency borrowing. Matters are moving ahead now quite quickly, and he wants to explain to you where they now stand.

Mark Addison

ms

Mark Addison  
29 August 1986

JA2ADO

CONFIDENTIAL

PRIME MINISTER

We have arranged for you to see the Chancellor for an hour on Monday. You were down to see him for half an hour in any case to discuss Mr. Anson's education paper, and there will therefore be a further half an hour for a more general discussion.

Is there anything in particular you would like to discuss with him?

MAA

He will be aware of general  
e.g. matters which need  
discussion,  
aw

Mark Addison

28 August 1986

PRIME MINISTER

You asked about the Chancellor's movements. He is expected to be back in London around 1430 on Thursday afternoon. Would you like me to try and arrange a meeting early next week before you go up to Scotland?

MEA

Yes - on  
Friday  
am

MEA

26 August 1986

Carole

MEA  
done  
CR 28/8

PM is seeing the Ch/Ex on Monday

about a specific matter and it would be best to add 1/2 hour. Could we delay the next meeting 1/2 an hour? The meeting should be on Monday - David is back later. MEA 27/8

D. R.

*Caroline CR*

*Yes. Thanks,*

MR NORGROVE

*DRS*

*1/9*

Tim Flesher asked me to set up two meetings to discuss a paper the Chancellor of the Exchequer had been sent by John Anson on the subject of education. Tim wanted two meetings, one for the Chancellor and one for John Anson.

The former is on Monday 1 September at 1700 hours and the latter on Tuesday 23 September at 1500. I have given Mr. Anson 45 minutes. Is this sufficient?

*CR -*

CAROLINE RYDER

13 August 1986



10 DOWNING STREET

Prime Minister

Bilateral with the Chancellor

Only two items:

(i) markets and interest rates;

(ii) teachers' pay.

DS  
29/7

D. R.  
CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Possible subjects for discussion include:

- (i) Teachers' pay (there is a note on this elsewhere in your box);
- (ii) The markets (with the weakness of the dollar but also some depreciation of sterling).

The Chancellor may also mention to you:

- A letter he has sent to you about Mexico; - in 'Act: on this Day' folder.
- He has circulated an end of term letter to Government back benchers;
- He plans to send you a minute about membership of the TSRB;
- He may mention to you where he is getting to on the question of whether the Exchange Control Act should be repealed.

DN

DN

22 July, 1986.

JD3AOL

CONFIDENTIAL



10 DOWNING STREET

Prime Minister

You might wish to  
tell the Chancellor  
about your journal.

N.G.W.

22.7

*Delors (Hans) Social Security*

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Two items for discussion.

First, the Public Expenditure Cabinet. Further background on this is provided in the Chancellor's minute below.

You will need to agree the order of events with the Chancellor. Do you wish the Chancellor's paper to be discussed? Or is it to be there simply as background? If the former, the Chancellor will presumably introduce his paper and in this context he will in particular need to explain that the slower growth in the economy than expected at the time of the Budget has led to the continued rise in unemployment, including the disappointing unemployment figures to be published that day. Do you want to arrange for someone to come in immediately after the Chancellor (eg Sir Geoffrey Howe?)

The Chief Secretary's proposals on public expenditure will be taken next. You will want to set the tone for the discussion with a brief introduction about the importance of maintaining firm control. The Chief Secretary will no doubt then speak. Do you want to arrange for a couple of people to come in immediately after the Chief Secretary (eg Mr. Tebbit, Mr. Edwards, Mr. Ridley)?

In your summing up you will want to mention the setting up of the Star Chamber in October if you are to keep open the option of avoiding a further Public Expenditure Cabinet in October after the Chief Secretary's bilaterals.

You will have speaking notes for your opening and closing remarks.

You might also confirm with the Chancellor the words to be used after Cabinet:



CONFIDENTIAL

"At its meeting today, the Cabinet discussed the 1986 Public Expenditure Survey. As usual, the Chief Secretary will now hold bilateral discussions with colleagues working within the existing and published planning totals for 1987/88 and 1988/89 of £144 billion and £149 billion. A new planning total of £153 billion has been set for 1989/1990."

For the key words this follows exactly the phrase in the Chief Secretary's paper (paragraph 6 - copy in your folder).

Second, markets. The dollar has been very weak today and has fallen by more than 3 pfennigs since yesterday. The French have not yet reduced their interest rates, apparently because they are waiting for us to do so. You might discuss with the Chancellor how he sees the prospects.

DRW

DAVID NORGROVE  
15 July 1986

CAJAGN

CONFIDENTIAL

cc B/UP  
34

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Subjects for discussion with the Chancellor are as follows:

(i) Civil List Provision for Prince Andrew  
(Note by Nigel at Flag A; Treasury letter at Flag B);

(ii) Proposed Taxpayers Charter  
(Note by Peter Warry at Flag C; Treasury letter at Flag D. I have sent Peter's note, with his agreement, to the Treasury. I have no doubt that the Chancellor would prefer to stick with the Treasury's version of the Charter without Peter's amendments, but strongly suspect that he will come prepared to compromise if necessary);

On ECON POL  
Taxation + Savings  
Pt. 3

(iii) The Economic Prospects Paper for Cabinet on Thursday  
(Flag E). The Chancellor also wants to mention to you some preliminary thinking about handling of Cabinet in the autumn. He may suggest that you should indicate in your summing up on Thursday that a Star Chamber is likely to be set up in the autumn. If this was done there would be no need to have a public expenditure Cabinet in October, though one could be held if that seemed right at the time. I am also including the final version of the Chief Secretary's paper (Flag F).

On ECON POL  
Public Expenditure  
Pt. 35

(iv) The Markets  
The Americans have today made an approach which looks for the UK to join in another concerted round of reductions in interest rates. The Americans themselves are likely to reduce their interest rates during the course of their trading day today, and the French may well follow suit. In response to the Americans, the Treasury were somewhat encouraging but non-committal. The Chancellor will be thinking about

a reduction in interest rates during the next few days and wants your first reactions. (Sterling today closed at fractionally under 75 on the effective index. This is weaker than it has been over the past few weeks - when it has touched 76½ - but it is still quite firm. On the other hand, the money figures remain on the worrying side. Other factors to take into account are the risk of effects on the markets from the public expenditure Cabinet on Thursday and from the announcement of the very high local authority spending figures and RSG).

DN

David Norgrove

10 July 1986

DG2BFL

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

There is a meeting arranged for Thursday morning to discuss handling of the public expenditure Cabinet. Otherwise, possible subjects for discussion with the Chancellor include:

- (i) the Inland Revenue, note by the Policy Unit below (I have alerted the Treasury to the fact that the points mentioned here may be raised with the Chancellor);
- (ii) the EC budget: the Chancellor may give you advance notice of a minute he plans to send you about this on Thursday;
- (iii) you might want to mention to the Chancellor any thoughts about the Secretary of State for Education's proposals for an Advisory Committee on Teachers' Pay (the Treasury are vehemently against).

*DWS*

DAVID NORGROVE

1 July 1986

ECL/05

CONFIDENTIAL

Je se 1

PRIME MINISTER

c Mr Norgrove

BILATERAL WITH THE CHANCELLOR OF THE EXCHEQUER:  
WEDNESDAY 25 JUNE

I have had to change the weekly 1700 slot to put in the meeting which should have taken place last night with the Lord President and Brian Unwin to discuss public expenditure.

The only time the Chancellor could manage tomorrow is 1930. is this too late for you.

CR

24 June 1986

## PRIME MINISTER

## BILATERAL WITH THE CHANCELLOR

The Chancellor wishes to mention to you the results of his consultations about his profit-sharing scheme. He would like to publish a consultation document in the middle of July. A number of people have expressed concern that once a profit-sharing scheme is in operation it may give employees an incentive to keep down numbers employed in the company. Does the Chancellor envisage arrangements under which the rights of new entrants to a company would build up gradually to remove this disincentive to new jobs?

*This  
Savson  
Uncle  
See  
part  
which  
makes  
one  
available  
for Rachel  
humans  
new  
part,  
referred  
to below.*

The Chancellor will also mention a proposed reorganisation of the Treasury. (Under the reorganisation, Michael Scholar will gain responsibility for tax policy as well as budget management. Andrew Turnbull's responsibilities are unchanged.)

You could if appropriate take the opportunity to have a private word with the Chancellor about South Africa.

I suggest you leave discussion of public expenditure tactics for your next bilateral. The Treasury will by then be better prepared to talk about forms of words for an announcement after the July Cabinet.

The Chancellor has just received the summer forecast but is unlikely to have a chance to absorb it before your meeting tomorrow. That too could be a subject for next week.

(DAVID NORGROVE)

24 June 1986

\* Rachel humase, on  
promotion to Uncle Secretary, is  
to be in charge of a new Division  
dealing with financial institutions,  
the City, Big Bang etc.

## PRIME MINISTER

## BILATERAL WITH THE CHANCELLOR

Your bilateral with the Chancellor tomorrow will be attended also by the Chief Secretary. (The Lord President is away and you will wish to have a further discussion with him present.) The aim is to discuss the handling of the Public Expenditure Survey.

The Chancellor mentioned some of his thinking to you at the last bilateral. The problem is to decide the stage at which Cabinet will learn of the need to increase the planning totals: July or the autumn? The Chancellor's inclination is to choose the autumn. He argues that to announce the increases in July would give the wrong signal to colleagues, and it would be difficult to handle in public - it would be bound to become generally known - without the context which is provided by the new forecast in the Autumn Statement. The Chancellor suggested that Lord Whitelaw should have the new figures to give him something to work to during the Star Chamber discussions. By implication therefore, the Chancellor would not tell the colleagues at the October public expenditure Cabinet. Instead, they would learn of the changes only at the final public expenditure Cabinet a few days before publication of the Autumn Statement itself.

The Treasury I know arrived at this conclusion only after considerable discussion, and there are risks with it. It assumes that Cabinet in July will sign up to the existing totals without demur, as they have done in the past few years. This may be a correct assessment: everyone knows that in the past few years the Treasury has always found money from its back pocket (i.e. a lower Reserve and higher asset sales and one or two fiddles) which in practice have allowed higher "real" spending on programmes without needing to raise the planning totals in the Autumn Statement. They may well assume the Treasury can do it again. Providing the figures can be

suitably obscured in the Chief Secretary's Cabinet paper, they may this year not even know the totals of the bids, so they will have little idea of the true scale of the problem.

The risk is that one or a group of spending Ministers might challenge the proposal to stay with the existing planning totals. Whatever the Chief Secretary's paper says, enough is known for a particularly astute PFO or the Minister himself to work out that this year's problems look particularly difficult. It would be potentially disastrous for spending Ministers successfully to challenge the Treasury's proposals on the planning totals in July. The whole strategy could be called in question. The Treasury tactic is based on bluff. The consequences could be serious if the bluff is called.

There could instead be positive advantages in taking a decision to increase the planning totals and announce them in July. The Government could say that these decisions were being made specifically to allow greater spending on high priority areas such as education and health. This would also avoid the risk of higher planning totals announced in November being seen as a defeat for you and the Treasury in the battle to maintain priority for tax cuts. If higher spending is inevitable, on this argument go quietly and take full credit for the increase.

Nigel (Wicks) and I disagree about the choice. Nigel believes that if there has been an increase in the planning total in July it should be announced as your deliberate act of policy to increase spending on priority areas of health and education. The Government would then seek to take full presentational advantage. He fears that if the announcement was delayed until the autumn, after a serious bruising battles in the Star Chamber, it would be presented as a defeat for you and the Treasury and we would lose the presentational impact of the increase in spending in the two priority areas.



My own preference is on balance for the autumn. An increase in the spending totals is bound to be seen as something of a defeat however it is presented and whenever it occurs. But in the autumn it can be presented in context (aiming to demonstrate that finance still determines expenditure and not the other way around) and all the announcements of changes in individual programmes would help to distract attention. It would also avoid giving a signal to colleagues as early as July.

Nigel and I both agree that it is vital for you to discuss with the Lord President and the Chancellor the risk of a misfire in July if you go for the Treasury's tactics. What would happen if someone challenged the spending totals? Could the challenge be successfully brushed aside?

Two other points:

(i) the Chancellor may report to you (without the others present) about his discussions with the Attorney on the matter he has come to see you about a couple of times before;

(ii) you could raise with him your concern about spending £130 million to switch to payment of oil royalties in cash (papers below).

*Margo  
Duty Clerk*

*ff.* (DAVID NORGROVE)

17 June 1986

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have only a short bilateral with the Chancellor tomorrow. He wants to give you a first indication of the public expenditure picture and to tell you where the Treasury thinking has got to so far on the tactics.

It would be better if the Chancellor explained the position to you in his own words. But I suggest that tomorrow you should certainly not express any firm views. It would I am sure be dangerous to give the Treasury even a preliminary steer on the basis of so short a meeting. I am arranging a longer meeting for next week.

The other possible subject is the markets. A number of factors have caused the exchange rate to strengthen in a way which is uncomfortable. Yet we are not in a position to reduce interest rates.

*DN*

David Norgrove

11 June 1986

*mt*

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have half-an-hour for the bilateral.

You might raise the money numbers. Sterling M3 has risen by 18½-19 per cent over the past year, by more than 20 per cent over the last six months at an annual rate, and by 35-38 per cent over the past three months at an annual rate. It is wrong of course to rely too heavily on figures which cover only a short period, extrapolating these to an annual rate. But with the Chancellor's convictions about the EMS he may be relying too much on the firmness of the exchange rate. Is he taking the money numbers seriously enough? It would be right to push him hard. This is a worrying growth in a highly liquid potential spending power. The only action we could take to constrain it - or try to - would be to raise short-term interest rates, in a highly undesirable way. But the Treasury and Bank should be making every effort to try to work out what is going on.

The Chancellor wants to discuss Mr. Baker with you. Mr. Baker has told the Chief Secretary about his Friday meeting with you, and the Chancellor will no doubt want to urge that Mr. Baker should be away empty handed. (The pressures for higher spending on education are very considerable. But I wonder whether in fact it might be better - if money has to be given - to give it directly rather than by changing the capital controls, which would have knock-on effects. These might be avoided if extra spending could be tied to short-term widely perceived needs, e.g., more money for GCSE, which Mr. Tebbit supports among others. This would also probably give a less damaging signal to local authorities than a change in the capital control regime.)

The Chancellor also wants to discuss Victor Paige's successor. I suspect he simply wants to know what is going on.

DW

DAVID NORRGROVE

4 June 1986

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor wants to raise two things with you:

- (i) the press release about the HMI report, on which there is a note in the Cabinet folder;
- (ii) the possibility of a further foreign currency borrowing. The Chancellor is thinking about a further foreign currency borrowing if a suitable opportunity opens up. The reserves are a bit low for comfort. But you will remember that at the end of the last meeting about EMS you told the Chancellor to come back when the reserves were much larger. Also, the more the Government borrows abroad, the more difficult it will be to draw a contrast between the Labour Government's overseas borrowing and this Government's record.

You will want to ask where things stand on a reduction in base rates. (The three-month inter-bank rate closed tonight at 10<sup>3</sup>/<sub>16</sub> per cent.)

You could also prompt the Chancellor about his meeting with the Governor and the Attorney. This has not yet taken place, and there seem to be problems about where it will be held. It really ought to be held as soon as possible. How could the Government justify sitting on this report for days on end without telling the Governor? And does the Chancellor intend to make it clear to the Governor that he should report back on the investigation?

*DN*

DAVID NORGROVE  
21 May 1986

JALASF

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Possible subjects for discussion are as follows.

Markets. Professor Griffiths saw recently a paper prepared by the Bank for their regular meeting with Peter Middleton about the markets. The Bank expressed serious concern about the growth in liquidity reflected by the strong growth of Sterling M3. They wish to be very cautious about a further reduction in interest rates. The Treasury seem to be rather more relaxed, pointing to the very good picture on inflation and also the lack of growth in the economy.

The inter-bank rate has begun to move down over the last few days and now stands at 10<sup>3</sup>/16 per cent for three month money. The economy is probably suffering from the very sharp increase in interest rates in January last year, sustained in part throughout the year, and from the tightening of fiscal policy implied by the low outturn for the PSBR. Base rates are only 1 per cent below their level of December last year, and the benefits of lower oil prices will take some time to come through. How does the Chancellor see the risks?

Tax and public expenditure. The Chancellor is giving two speeches in Birmingham on Friday and you have Scotland, CBI and the Women's Conference coming up. You could discuss how the Government is to get the message across about the need for lower tax. But everybody expects you and the Chancellor to argue for lower tax. What other Ministers could be brought in to help? (Lord President, Lord Young, Mr. Ridley?)

Follow-up to the Budget. The Chancellor could tell you about reactions to his proposals for profit sharing and

E.B.

Personal Equity Plans. There are also problems. There are signs of a campaign for a further reduction or abolition of stamp duty on ADRs (Lord Hanson has written to you about this - the Treasury are providing a reply). There are also problems about the measures the Chancellor has taken to prevent the use of charities for tax avoidance, with fears that they will hit legitimate charities. (Sir Maurice Laing and others have written to you about this - again draft replies are in preparation.)

*DLV*

DAVID NORGROVE

13 May 1986

SLHALT

PRIME MINISTER

**BILATERAL WITH THE CHANCELLOR**

You might like to discuss with the Chancellor the approach to the Economic Summit. A minute from the Chancellor is below. It includes a revised draft opening statement on economic issues which covers the ground.

You may also like to bring the Chancellor up to date on your thinking about people, unless you have already set his mind at rest on the possible change you mentioned to him at the bilateral last week.

Finally, the Chancellor prepared the way with you last week for some fairly gloomy news about the prospects for output in the period before the benefits of lower oil prices start to feed through into our overseas markets towards the end of the year. He was very cautious with you, and the Treasury forecast is not complete, but it might be worth probing a little more how he sees the prospect: it could colour the tone of your comments over the next few weeks.

DRS

David Norgrove

29 April 1986

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Subjects which he intends to raise include:

- (i) The state of the markets and in particular the case for a pause in the downward movement of interest rates. Today's closing figures are:

\$1.527

3.34 DM

75.7 on the sterling index

10<sup>3</sup>/8% on 3 month inter-bank

(The movement has been slightly up over the last few days).

- (ii) Stamp Duty

The Chancellor is proposing to announce an amendment at Second Reading of the Finance Bill on *Tuesday*. There is a minute in the folder from him.

- (iii) Economic prospects generally

We have a whole series of very contradictory indicators, e.g. very good: interest rates, retail sales, RPI and employment; very bad: trade and unemployment.

- (iv) The handling of Civil Service pay in relation to TSRB. You will recall agreeing to the Chancellor's recent minute on the former.

Timothy Flesher

23 April 1986

DG2BAJ



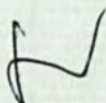
PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

I gather that the Chancellor does not yet know what he wants to talk to you about on Monday although I gather that the treatment of the Review Bodies' reports is uppermost in his mind. We have not yet received any reports though I understand from the Office of Manpower Economics that the Doctors and Dentists reports will be a little later than the rest.

The Chancellor will be leaving for a week of international meetings on Tuesday so no doubt international problems will be on his mind.

You might also want to mention to him the impact of the new provisions on ADRs about which you were concerned.

  
Tim Flesher  
4 April 1986

JALAOP

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The main subject for discussion will be the Budget. The Chancellor will be sending you a minute tomorrow morning. This will discuss a number of proposals which you already know about. It will seek your formal approval.

Otherwise, the Chancellor wants to take you through some issues raised by the forecast, and also to discuss direct tax.

This is likely to take up most of the time, but if there is an opportunity you could ask him about the latest position on JMB, and it might also be helpful to talk about the position reached on BL.

*DNS*

(DAVID NORGROVE)

4 March 1986

SRWAQG

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The main item for discussion will be the indirect tax proposals, set out in the Chancellor's minute. *(which we expect to receive in the morning)*

There are three other possible items.

First, employment measures. The Chief Secretary has been discussing employment measures for the Budget with Lord Young, and the Chancellor may want to touch base with you.

Secondly, interest rates. As you know, inter-bank rates have fallen  $\frac{3}{8}$  per cent or so during the last few days and the yield curve at the shorter end is now downward sloping, which would suggest that the market is looking for a move down. The three-month rate is at  $12\frac{1}{4}$  per cent. Sterling is very firm even though oil prices for April and May are at \$15 or below. Sterling's strength is, to a large extent, a reflection of the dollar's weakness: the dollar has fallen by 8 pfennigs in the last few days and is not far off its all time low against the yen (the Japanese response has been to start to put together large loans at subsidised interest rates for their exporters!).

The market pressures for lower interest rates are as yet not strong and the Bank would have to give a signal to secure a reduction in base rates. This is, however, largely a reflection of the fact that the markets expect the Government to want to see a fall in interest rates alongside the Budget.

Caution must be the watchword here, as elsewhere. But there would be no harm in opening this up with the Chancellor.

Thirdly, the Green Paper on Personal Taxation. You might discuss with the Chancellor the handling of Cabinet. Do you want to arrange for one or two members of the group to speak after the Chancellor, eg. Mr. Tebbit and Lord Young? I understand that Mr. Fowler may want to circulate a minute for Cabinet on Thursday. (I have mentioned this to the Chief Whip.)

DWS

ms

DAVID NORGROVE

25 February 1986

SL2AEY

PRIME MINISTER

**BILATERALS WITH THE CHANCELLOR**

You have two bilaterals with the Chancellor tomorrow one before Cabinet and one in the afternoon. The one before Cabinet will be about the handling of Cabinet itself. The folder includes a note by Bernard about the line to be taken after Cabinet and also a note by the Treasury. The Treasury propose that Bernard should say virtually nothing about the Cabinet discussion. I am not sure this is realistic: other members of Cabinet will be doing their own briefing afterwards. I attach a possible, rather fuller, line. If there is major disagreement tomorrow the line would probably need to be further reconsidered, to enable Bernard to brush aside the wilder reports.

At the meeting in the afternoon you will probably want to take stock of the morning's discussion. Other points for discussion include:

- (i) The JMB sale where the Chancellor will describe the latest developments.
- (ii) The Green Paper on Personal Taxation: the Chancellor wants to alert you to the dangers of the Cabinet discussion which has been agreed for next week (not that you need any alerting about them).

You might raise with him the prospects for interest rates. Clearly it would be unwise to look for a reduction while there is still so much uncertainty. But now that the Treasury have had their extended discussions about the policy stance and the prospects for the economy, do they think that the present level of short-term interest rates is at the right level, bearing in mind the Government's inflation objectives

and the prospects for growth? When is it going to be possible to get interest rates down?

OPEC have kindly scheduled a meeting for Budget Day.

There are rumours that the Chancellor's Cabinet Paper has been leaked to the Press.

*Susan Holt*  
*Duty Clerk*

pp .DN

12 February, 1986.

JD/72

E. R.

POSSIBLE LINE TO TAKE

Cabinet today held their usual pre-Budget macro-economic discussion. They reaffirmed the economic strategy. They recognised the importance of maintaining downward pressure on inflation, in the interests of <sup>growth</sup> ~~grants~~ and jobs. They agreed that economic policy should remain prudent and cautious, acknowledging in particular ~~the present uncertainties about the prospects for~~ ~~oil prices.~~

the sharp drop in oil prices. ~~(and the continuing uncertainties about them)~~

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have an hour with the Chancellor tomorrow afternoon. The Chancellor will want to concentrate on the handling of the Economic Cabinet.

The first question is whether it should go ahead for 13 February. The Treasury tell me that the Chancellor's views have been shifting in the direction of greater prudence, encouraged by the fall in the oil price. But he has as yet reached no conclusion, even provisionally. That, and the continuing great uncertainty about the economic picture, has raised a questionmark about whether the Cabinet should be postponed for a week. A very bland and anodyne paper could be prepared, but the tone of the paper and of the Chancellor's remarks at Cabinet will be affected by the state of his thinking.

There is quite a strong case for going ahead, regardless. Cabinet colleagues will have seen a provisional agenda including the macro-economic item. And the nearer the discussion to the Budget itself, the more "real" the discussion becomes. The circulation of the agenda is not an insuperable point - colleagues would understand the Chancellor's problems if he explained them next Thursday - but it perhaps helps tip the balance towards going ahead as planned.

The second area for discussion is the presentation of the arguments in the Chancellor's paper. He will want to take your views on this.

Thirdly, a question you might raise with him, is how he sees the balance of opinion amongst colleagues about rates v. thresholds - assuming there is scope for tax cuts.

*DN*

David Norgrove

6 February 1986



26.

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow afternoon for half an hour at 1730.

I suggest you concentrate on the markets and oil prices.

Despite the disagreement last Friday, I believe the Chancellor deserves a good deal of credit for the relatively smooth fall in the exchange rate and also for avoiding a rise in interest rates.

I understand that the Bank have been pressing him very hard almost every day arguing that without a rise in interest rates the exchange rate was likely to fall in a damaging way. His meeting with you last Friday represented an eventual agreement following very substantial pressure.

He is also now framing his Budget against a particularly difficult background. You are, as you know, giving him supper on Sunday night to allow an extended discussion about the Budget.

You might also discuss with him the unemployment figures and the CBI Trends Survey published today. There has clearly been a softening in the economy during the last few months. Is this affecting the Treasury's latest assessment of the prospects?



DN

28 January, 1986.

JD3AIE

SECRET

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor will want to report the outcome of the G5  
to you in greater detail.

Other subjects include:-

- The markets (some of the fall in interest rates over the past few days undoubtedly reflects rumours about a concerted G5 plan to reduce interest rates, and there may be a reaction if something of this kind does not emerge, as seems likely):

- Tin, where the Chancellor may, I suspect, emphasise the risks he sees in attempting to mount a bail-out for the banks and brokers; I think he may be concerned that you showed too much sympathy for the Governor's arguments yesterday!

- Oil; how he sees the prospects for the next few months now.

The Chancellor may mention the Green Paper on Personal Taxation to you. If he expresses discontent about the way this is going, you could point out that he has agreement to a Green Paper for publication on Budget Day, and that it should include a full discussion of transferable allowances. How firm it will be must depend on the results of the further discussions, just as the Treasury would expect in discussions of proposals from other Departments.

DRW

DN

17 January, 1986

CONFIDENTIAL

JD70

cc. Econ. Pol.  
Budget. Pt 14. *mb*

PRIME MINISTER

You have a two hour bilateral with the Chancellor tomorrow afternoon. There are three major topics for discussion:

- the markets
- the Budget
- the Green Paper on Personal Taxation

I suggest you start with the markets (see my separate note about base rates). This will set the right flavour for discussion of the Budget.

In this context you might also raise with him the extent of intervention in the foreign exchange markets, whether directly or by meeting departments' needs from the reserves - over \$400 million down last month, and a fall every month since August, the floating rate note aside. This surely cannot be allowed to go on, nor should the Chancellor agree at the G5 this month to further intervention by the UK. (You might ask the Chancellor what the agenda is to be for this meeting and what he thinks is likely to come out of it.)

On the Budget, the Chancellor intends to give you some first thoughts about the overall fiscal and monetary framework. The Treasury say the monetary discussion is not very advanced. On fiscal policy, the Treasury say public comment has an exaggerated idea of the Chancellor's intentions. I am told privately that the Chancellor has no present intention of increasing the PSBR for 1986-87 beyond the £7½ billion envisaged in the 1985 MTFs. The question is rather how much below that figure he should aim. The £2½ billion higher asset sales point in one direction; lower oil revenues may point in the other.

The flavour of the public comment is given in the notes by Phillips & Drew below. Though these papers do not show it, some people are saying that the Chancellor intends to increase the PSBR. On the other hand, see the tables on pages 13 and

14 of the Phillips & Drew pamphlet.

You might also like to look at the record (dictated from memory) of your dinner with the Chancellor last month.

I suggest that at this stage you should not get into a discussion of detailed numbers for the PSBR even if the Chancellor wished to do so.

The next area for discussion is the main blocks of the Budget.

On direct taxation, should priority be given to reducing the basic rate or increasing allowances? (Note that reductions in the basic rate reduce the cost of transferable allowances.) Do you want to argue for simplifying the higher rate band? (You noted this morning that one of them is rather narrow - see the table attached.)

On indirect taxation, the blip downwards in inflation in the middle of this year would ease the pain of more than revalorisation. One possibility, as always, would be to raise VAT. Politically difficult perhaps, but it has a relatively low RPI effect for the revenue it raises. On specific duties, the uncertainty about oil prices may mean that the Chancellor should say, as Sir Geoffrey Howe did in 1982 and 1983, that if oil prices fall he would be prepared to raise specific duties to compensate for the effect on the PSBR.

Thirdly, employment measures. The Chancellor will not want to reinforce the tradition of increasing public expenditure at Budget time. To do so is bad for Survey discipline, partly because it looks as though the Chancellor is reserving goodies for himself. But I am told that Lord Young's ideas, discussed at the time of the Autumn Statement, are regarded as imaginative and that they could be reasonably cheap. An increase in the community programme, as favoured by the CBI, would be worth keeping up the sleeve in case the unemployment figures began to rise again.

Fourthly, the Chancellor may broach a miscellany of ideas about, eg, pension fund surpluses and charities. On charities, there has in the last few months been some correspondence stemming from a report by Sir Adam Ridley which proposed greater tax deductability for charity giving, among other things.

The discussion on the Green Paper on Personal Taxation has been postponed. But the discussion tomorrow could be used to steer the Chancellor in a way which would head off a row. You could perhaps make the following points to him:

- (i) recognise that he is committed to publishing a Green Paper and agree that we should work towards publishing it on Budget Day;
- (ii) the Green Paper as at present drafted is almost white on the main issue and sets out only one side of the case; it also risks looking imprudent (£5.3 billion);
- (iii) you will need to see what colleagues think, but in any case the Green Paper will need to be redrafted to make it more green and recognise that there are arguments against the proposal;
- (iv) the Green Paper should also acknowledge that £5.3 billion may not be available: it could show the benefits of the proposal on several different bases, eg revenue neutral, £2½ billion available and no losers;

(v) you will want to look very carefully at some of the more minor proposals as well, eg why should not mortgage interest relief be split and transferable between husband and wife at £15,000 or some higher level? [I am not clear what in fact this would achieve: would the idea be to allow the split relief to be used against different houses?]

*Hamilton (Duty Clerk)*

*DP*

DAVID NORNGROVE

6 January 1985

JALIAIA

## BANDS OF TAXABLE INCOME

£	Per cent
0 - 16,200	30
16,201 - 19,200	40
19,201 - 24,400	45
24,401 - 32,300	50
32,301 - 40,200	55
over 40,200	60

APPOINTMENTS IN CONFIDENCE

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow afternoon at 1730 for half an hour.

The Chancellor will take you through the appointments he has in mind to suggest for the Court of the Bank of England, as agreed with the Governor.

There are two vacancies (Blunden and Griffiths). Four appointments are expiring - Cadbury, Scholey, George and Drain. The Governor wants to re-appoint the first three, but not Drain.

The Governor wants a trade unionist to be appointed in Drain's place and he proposes Gavin Laird.

The proposal is that Derek van der Weyer should take one of the other two vacancies. He is now Deputy Chairman of BT and he served on the Governor's review of banking supervision. For the other, the Governor proposes Leslie Young, Chairman of Bibby's, partly for his strong links with the north. He takes the view that this would broaden the range of experience available within the Court.

I have discussed this with Brian Griffiths, who believes these proposals to be individually acceptable, but perhaps a touch stuffy. On the other hand, he says that morale in the Bank is very low at the moment and to appoint good solid people might help.

If you wanted to suggest rather more exciting or rather more interesting names, the possibilities would include ~~Philip Hughes of Logica~~, Robb Wilmot (who has now left STC to start up a European-wide chip company) and Herr Leutweiler, though the last of these would probably be taken as a snub.

APPOINTMENTS IN CONFIDENCE



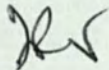
APPOINTMENTS IN CONFIDENCE

2

As for other subjects, I think it would help if you said how much you had enjoyed Sunday evening. I believe the Chancellor felt a bit battered by the conversation before dinner and it would be worth reassuring him so that he is less likely to resist similar discussions in future.

Other possibilities include:

- fraud: you will have held a meeting in the afternoon but you might urge on him the need to be flexible about pay and recruitment in this area;
- teachers' pay (meeting tomorrow);
- inner cities (meeting after Cabinet on Thursday).



DAVID NORGROVE

17 December 1985

JD3AGO

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow for a bilateral.

This will to some extent be a rehearsal for dinner on Sunday night, since the main items for the bilateral are likely to be macro-economic.

The bilateral is after a meeting about TSRB and there may be some follow-up to that.

Otherwise I suggest you might focus on the markets. A note by the Policy Unit on oil is below.

I also enclose a note by Alan Walters, commissioned as an input to Sunday's dinner. Alan continues to believe that monetary conditions are tight, and I doubt that today's figures would change his view. (There is incidentally a technical doubt about today's money numbers: the figures for bank assets failed to match the figures for bank liabilities by an unusually large amount.)

*Martin Sawyer*

pp. DAVID NORGROVE

10 December 1985

M. Haggrome

I have confirmed with  
Chancellor  
office

CR

PRIME MINISTER

CHANCELLOR OF THE EXCHEQUER

Nigel Lawson would like a private chat  
and wonders if he could come in after Christmas  
before the House comes back.

BFI

I have allocated Tuesday 7 January for  
a Dulwich day. Shall I ask the Chancellor  
to come and see you at, say, 1800 hours?

Yes not

CR

(CAROLINE RYDER)

4 December 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow afternoon after the meeting with Mr Brittan on BL. Your next meeting starts at 1600.

Luxembourg

The Chancellor will be interested to hear a report on the European Council.

Personal Pensions and the Public Services

See your comment on the Chancellor's minute to you of 27 November. The Chancellor wants to discuss this with you.

Green Paper on Personal Taxation

See:

- Chancellor's further minute of today;
- Policy Unit minute.

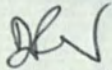
The folder also includes the draft Green Paper.

The Chancellor sees the meeting tomorrow as an opportunity to explain to you the broader political advantages he finds in the proposal for transferable allowances. These are summarised in his minute.

The proposal should not go for discussion to a wider group of colleagues unless you are prepared in the end to accept a recommendation from them that transferable allowances are the right way to go.

Banking White Paper

The Chancellor may describe to you, if there is time, how the proposals have come out, following your meeting.



David Norgrove

3 December 1985

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow at 1800 for half an hour.

Items for discussion include the following:-

Banking White Paper

The Chancellor will tell you that a draft ~~of~~ the White Paper will be with you for the weekend. The two main outstanding issues - the relationship between supervisors and auditors, and the Banking Commission - have been agreed with the Bank of England.

Monetary Cooperation

The Chancellor would like to be told the outcome of your discussion with Chancellor Kohl about monetary cooperation and the Treaty of Rome.

Gas Privatisation

The Chancellor may raise this with you. He thinks BGC could be pushed a lot further by Mr. Walker. (I am told privately that he has a mole on the BGC Board - please protect.) The Chancellor is probably right. But the important point is that Mr. Walker does not agree. The Chief Whip, by the way, agrees with your decision on this.

You could ask the Chancellor about reactions to the Autumn Statement, now that the dust has begun to settle. (I enclose a minute by John Redwood.) But this is probably not the occasion for a substantive discussion. We need to consider further how best to keep the Treasury alongside in the run-up

CONFIDENTIAL

CONFIDENTIAL

- 2 -

to the Budget, and tomorrow's meeting is any way too short.

You will remember that at an earlier bilateral the Chancellor took you through proposals he wanted to make about the TSRB. He minuted you, and this minute, together with comments from the Ministers concerned, will be coming to you for the weekend.

DN

P.S. Please see also Mark's  
minute, enclosed, about  
drug trafficking and the Inland  
Revenue.

DN

DN

26 November, 1985.

JD3AFN

CONFIDENTIAL

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow at 1730 for half an hour. Topics include the following:

Autumn Statement

The Chancellor deserves to be congratulated on the presentation of the Autumn Statement and on his speech in the economic day of the Debate on the Address. The Autumn Statement was very well received politically and there was no apparent adverse effect on the markets. Indeed sterling has firmed a little. But there are worries about the Government's continuing commitment to prudent policies. Its belief in the importance of low inflation, firm control of public spending and prudent control of borrowing needs to be constantly affirmed. You might mention to the Chancellor your concern that higher asset sales point to the need for lower borrowing figures.

Keith

The papers you saw over the weekend are below. There are two issues here:

- timing: whether to delay legislation until 1987;
- Peter Warry's proposal for a taxpayer's charter.

Fraud

Should we be moving now to increase the resources available to the DPP, DTI, etc. for pursuing fraud, in view of the workload mentioned in the draft reply from you to Sir Nicholas Goodison? (This reference has now of course been taken out).

MISC 111

It might be worth touching on this depending on the outcome of the meeting earlier in the afternoon.

International Finance Scene

The latest Treasury report is going into the Box separately. Worth a mention if there is time perhaps.

J. Bowers

PP DAVID NORGROVE

19 November 1985

CONFIDENTIAL



Gpm

PRIME MINISTER

The Chancellor of the Exchequer would like to come and see you for 15 minutes tomorrow afternoon on the subject of monetary amendments to the European Treaty. The Chancellor is seeing his German counterpart today and would like to make a report to you before Monday.

Charles would sit in at the meeting.

Agree to a 15 minute meeting with the Chancellor?

ECL.

LIZ LAMBERT  
16 November 1985

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow morning at 0930 for half an hour.

I am told the Chancellor has nothing in particular to talk about, and this will be a good opportunity for some fence mending, if any is needed. (I know the Chancellor expected no other outcome from the meeting this morning.)

I suggest four subjects:

(i) JMB and Mr. Sedgemore - so far a satisfactory position, in Parliamentary terms, but there will be more scandal to come.

(ii) The Autumn Statement. There is a note in your box from Bernard about this, and the reception in the markets has been quite positive. So far so good. The need now is for the Treasury to maintain the line, through the coming months and right up to the Budget, that the Chancellor will be taking his decisions in the Budget on a prudent and cautious basis. There is bound increasingly to be talk in the run up to the Budget about tax cuts and some of the speculation will be wild. The Treasury will have to work hard to create the right climate to prevent this unsettling the markets.

(iii) Tin. I understand that Mr. Brittan has held a further meeting this afternoon at which the Chief Secretary was present. The ITC is to meet tomorrow and the UK objective will be to continue to work towards acceptance by the member countries of their obligations. (The banks have proposed an expensive scheme under which all ITC liabilities would be guaranteed by the member governments. This is not acceptable.) If any progress is made tomorrow it may be possible to persuade the LME not to reopen on Monday.

CONFIDENTIAL

But there remains quite a possibility that the tin agreement will collapse and with it the tin price.

(iv) Lloyds and the City. What does the Chancellor think of Mr. Hay Davison's resignation?

*Marti Sawyer*

PP. DAVID NORGROVE  
13 November 1985

PRIME MINISTER

ERM

The Chancellor would like to see you for half an hour on Monday to talk about the meeting scheduled for Wednesday on whether the UK should join the ERM. You will remember that this will be the meeting involving a larger group of Ministers.

The Chancellor is pencilled in for 1645 hours and he knows that this is subject to the needs of your Guildhall speech. But I do recommend you to agree to see him. I understand privately that he is considering whether it would be helpful to his case for the meeting on Wednesday to go ahead. I suggest that you should leave him to decide this: the decision on whether we join is of central importance to his responsibilities.

The Treasury have sent in answers to our questionnaire. They put the case for joining very well, but they do only put that side of the argument. Would you find it helpful to have a few minutes with Nigel and me at some stage during Monday about the arguments which Alan Walters put to you?

Yes - if time permits

*DN*

David Norgrove  
8 November 1985

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

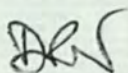
You are seeing the Chancellor tomorrow at 0945. I suggest you limit the meeting to half an hour.

Two items on the Agenda:

The first item is the meeting with Lord Young on enterprise and employment. The Chancellor feels strongly as you know, that this meeting is very unfortunate. There is a separate minute from Nigel enclosed. The meeting was set up two months ago and I regret that I did not spot the clash - but neither the Policy Unit nor I expected Lord Young to come in with such a wide range of very expensive proposals.

The other item is the handling of Cabinet. I am not sure what the Chancellor has in mind here. But one question is what should be told to the Press.

Bernard has already told them, having consulted Lord Whitelaw's office, that the Star Chamber has completed its work and that Cabinet will be discussing the outcome of the Survey tomorrow. Bernard would like to be able to tell them after Cabinet tomorrow that the Survey has been completed, that the totals have been adhered to and that the Autumn Statement is to be published on 12 November. The Chancellor should bring with him the draft of a possible statement.



DAVID NORGROVE

6 November 1985

CONFIDENTIAL

E. R.

PRIME MINISTER

MEETING WITH LORD YOUNG

As I told you, the Chancellor would like your meeting with Lord Young postponed. He believes that it would be damaging to discuss Lord Young's latest employment package, with its considerable expenditure consequences, when the ink has not yet dried on this year's public expenditure exercise.

The Chancellor's concerns are understandable. But it is unreasonable to expect postponement of the meeting which has been arranged for a long time.

I therefore recommend that you tell the Chancellor that you will take the line with Lord Young that his proposals will be considered for announcement at next Budget time. The Treasury and the Department of Employment should therefore consider the proposals with a view to a further meeting with you in December/January and announcement, if measures are agreed, at next Budget time.

Meanwhile, there should be no hint of possibilities here outside interested departments. Other spending Ministers would, understandably, feel short-changed if they thought that Lord Young was in discussion with the Treasury for major extra expenditure.

N. W. S.

(Nigel Wicks)

6 November 1985



10 DOWNING STREET

PRIME MINISTER

The Chancellor has recently given three well received speeches -

Party Conference  
Mansion House  
and the Sun Alliance speech

on which he has spent considerable time in getting the presentation right.

You might like to compliment him on the results and urge that he keeps up his efforts on getting presentation right.

N.L.W.

ms

6 November 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are meeting the Chancellor at 1430 on Monday for 45 minutes.

The Chancellor may raise with you:

- (i) Banking supervision - a run over the ground in advance of your meeting later in the afternoon, perhaps particularly on tricky points in relation to the Bank of England.
- (ii) ✓ TSRB - the Chancellor wants to talk you through the paper the Treasury have drafted following your remit at MISC 66, before he circulates it to colleagues.
- (iii) ✓ Fiscal adjustment and the Autumn Statement - the Chancellor will take you through a note he has written on the question whether a figure for fiscal adjustment should be included in the Autumn Statement; he will leave the note with you. (The Chancellor, as you know, does not want to publish a figure, but there is likely to be Parliamentary and other criticism.)

On this third area, see the Treasury letter to me of 17 October, attached. The Treasury regard this as having come across for information rather than reaction. But the path for unemployment shown in the table of assumptions is very important and you may want to ask the Chancellor to justify it.

At least for the last few years, as you know, the unemployment assumption for public expenditure purposes has been that unemployment is flat from the first year of the survey period. A conventional assumption on these lines goes back at least to a correspondence between Mr. Healey and Mrs Short as Chairman of the Social Services Committee in the mid-1970s.

/The



The path now proposed apparently dates from the last Budget. It reflects the effects of the special employment measures announced then, and it has been taken as the basis for the latest figures for social security expenditure.

The Chancellor will no doubt argue that it is still conventional and that in any case it would be very difficult to handle the extra £200 million of expenditure which would result from changing the assumption in 1988-89 to three million unemployed. But it does not look nearly as conventional as the old style assumption. It looks more like a forecast, and it will be headline catching.

Other points you could raise include:

- (i) Reactions to the Chancellor's Mansion House speech - the markets seemed to have taken it well, but there has been wild talk about the end of the MTFs and monetary policy;
- (ii) tin <sup>\*</sup>(minute in your box);  
*\* Prime Minister. This did not arrive in time, but DTI hope it will be available by Sunday evening.*
- (iii) how the talks between the banks and South Africa are going;
- (iv) further Sedgemore allegations on JMB.

The Chancellor will not be at your meeting with Lord Whitelaw on public expenditure. He may want to give you his thought on where things have got to if there is time.

*DN*

DAVID NORGROVE  
25 October 1985

PRIME MINISTER

MEETING WITH THE CHANCELLOR

The Chancellor is coming in for a drink with you at 1800 hours on Sunday. His office have not been able to tell me what he has in mind to talk about, though no doubt the Party Conference will be fresh in both your minds! Other possible areas include the following:

MISC 111

You have a brief for Tuesday's meeting in your folder. The gap between the Treasury and DHSS on figures is very wide. This is something for MISC 120 (the Star Chamber). The Chancellor may want to mention to you the results of work commissioned from the Treasury after E(LF) a few weeks ago about the relationship between the MISC 111 proposals and local authority finance. The other departments have not been brought in on this to avoid, among other things, giving DHSS any excuse for delay. The Chancellor is likely to have a minute ready for you to see on Monday.

BANKING SUPERVISION

The Treasury are preparing a paper for you to take with you to CHOGM, against a meeting scheduled with the Treasury and the Bank for 28 October.

EXCHANGE RATE MECHANISM

You have a minute about this from me in your box.

GREEN PAPER ON TAXATION

The Chancellor may raise this. I suggest you should not do so if he does not. If it does come up, a way forward might be for the Chancellor to send you a minute summarising the

SECRET

- 2 -

proposals and main arguments as he sees them. This could be discussed after your return from the United States and you could at that stage decide what further work should be done on the substance. However, the Chancellor will be well aware of your hostility towards the draft of the Green Paper and, as I say, it would be as well to leave him to decide the immediate next steps.

*Mark Sawyer*

*pp.* David Norgrove  
11 October 1985

SECRET

BF 11.10.85

D.R.

PRIME MINISTER

~~D.H.~~  
1800 ~ Fletcher  
CR

The Chancellor would like to see you before CHOGM. I understand that he would prefer to come in for a chat and a drink on the Sunday after the Party Conference. You are dining with Sir Hector Laing that evening to mark your birthday, but we could always fit in the Chancellor slightly earlier.

Agree?

Yes - if back from the news

D

CR

Told the Tey.

Timothy Flesher

DH

3 October 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor and Chief Secretary will be on call for the end of your meeting with Mr Walker at 1730.

The Treasury have sent over a further letter, below, about pay and running costs. This is relevant to your meeting, but not central to it.

One point about the figures and presentation in the Chief Secretary's minute.

The Treasury list all the issues in dispute without distinguishing between bids they want to resist and cuts they are seeking. From the point of view of the outside world this is right: most things are seen as cuts. But internally the distinction is important.

The decisions on housing (except for an increase of £100 million), aid, the urban programme and energy need to be resolved in the Treasury's favour to get to the Treasury's forecast of £1.4 billion excess mentioned in paragraph 3. Broadly speaking all of these involve resisting bids.

For defence, Scotland (by stopping operation of the formula), Home Office, Education, and Social Security, the Treasury is asking whether you could accept cuts. These would need to be made for the planning total to get down to an excess of £1 billion (paragraph 9). The programmes which might potentially yield the biggest savings are defence, Scotland and Social Security. Energy is also one potential source of savings, but the situation there is very confused.

DN

DAVID NORGROVE

25 September 1985

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

You are meeting the Chancellor for a bilateral tomorrow at 1730. The Chief Secretary will also be present.

The main item for discussion will be the state of play on the public expenditure survey, and the Chief Secretary has sent you the minute at Flag A. (I am sorry you are getting this so late: it was only received at 10.15 pm.)

You might start with a very brief report on your discussion with Mr. Walker. The Chancellor should give you a report on his G5 discussions. But I suggest you keep these and other items to a maximum of 10 or 15 minutes.

The note on the public expenditure survey speaks for itself, though it lacks detail (including in most cases figures) on the issues in dispute. You will want to go through these carefully with the Chancellor and Chief Secretary.

There is one point on running costs which you should be aware of. You have agreed the approach which the Treasury intends to take. But there is pressure from colleagues, starting from doubts about the way pay is to be handled (with each department making its own assumptions though with some steering from the Treasury), reinforced by the realisation that the running cost controls are for real. Mr. Younger's minute, at Flag B, shows the drift. It came in after your discussion of running costs with the Chancellor last week. Pay and running costs are likely to be raised at the public expenditure Cabinet. You should be aware, but you have more important issues to discuss at the bilateral.

DAVID NORGROVE

24 September 1985

18

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are meeting the Chancellor for a bilateral lasting an hour at 1045 hrs on Monday, 16 September. The subjects the Chancellor is likely to raise are as follows:-

Coal

The Chancellor sent you a personal note about the future of the coal industry and the Policy Unit commented. These papers are at Flag A. The Chancellor has not indicated how he thinks these ideas might be pursued. I understand that he is seeking your general views on them to help him in continuing discussions with Mr. Walker. But clearly if some are to be pursued, they need to be taken up by yourself with Mr. Walker. The end of the coal strike has created an opportunity. One possibility would be a meeting with him, perhaps on the basis of a Private Secretary letter setting out some of the ideas which you think it would be worth exploring. No-one else would be involved at that stage. Given the need for legislation to secure some of the changes the Chancellor would like to see, there is some urgency.

G5 and \$

The Chancellor will want to discuss further with you the ideas which he mentioned at your meeting first thing last Thursday morning after your return from Scotland.

Running Costs

The Chief Secretary has written to you about proposed new arrangements for the control of Civil Service running costs (Flag B) and the Policy Unit have commented. The Chancellor wishes to take you through some aspects of this which are not brought out in detail in the note. He will in particular want to mention to you how the discussions on the running costs

SECRET

*See my  
minute  
below for  
an  
elaboration  
of this  
approach  
W.C.W.  
13.9*

figures are likely to go, as well as explain more of the Treasury's thinking.

The key question is probably that discussed in paragraphs 5 and 6 of the minute, namely the effect on expectations of making more realistic provision for pay. It is not easy to decide this without knowing what the figures will be. But the pay factor itself clearly has become much less worthwhile as an influence on pay expectations. Nobody at present expects settlements as low as 3 per cent.

This could usefully lead into a discussion of pay generally. There is the breakdown of the teachers' pay talks, and you will now have seen Mr. Baker's report that the settlement for the local authority manuals may be as high as 8 per cent. What can be done to try to prevent contagion from such high public sector pay awards, if they occur? There are no easy answers.

You might also discuss with the Chancellor the results of your seminar on South Africa.

*D. R.*

pp (David Norgrove)  
13 September, 1985



PRIME MINISTER

MEETING WITH THE CHANCELLOR

South Africa

Since David dictated his note, Peter Middleton has telephoned to say that the major South African bank, NED Bank, may be forced to close its doors <sup>in London</sup> tomorrow because of its inability to maintain sufficient lines of credit in the inter-bank market. The Bank of England are reasonably relaxed (though even at the height of the Mexican and Brazilian financial crises, those countries' banks kept their access to the inter-bank market). The Bank's assessment is that the two major British banks operating in South Africa, Standard and Barclays, are not much affected.

JMB and Ansbacher

Peter tells me also that he thinks that Mr. Lawson's main motive in wanting a Department of Trade inquiry into JMB and Ansbacher (and the activities of its former Chairman, the new Labour Peer Lord Williams) is that this will help divert the Opposition (Mr. Sedgemore et al) from their campaign for a public inquiry into JMB.

But will it? Won't the Government be criticised for sitting on its hands for almost a year before commissioning an inquiry? When will the inquiry report - near the next election? And what would the Government do with the inquiry's report?

None of this is to argue against an inquiry. But to suggest that Mr. Lawson should not rush you into a decision tomorrow. You need a meeting of the Ministers concerned (Chancellor, Secretary of State for Trade and Industry, Attorney General and the Governor?) to consider a detailed paper on these issues before coming to a decision.

N.L.W.

NIGEL WICKS

29 August 1985

SECRET

Econ For: Meetings with Chanc

PRIME MINISTER

MEETING WITH THE CHANCELLOR

SOUTH AFRICA

Chanc and Anschoor

1985-1986  
29 August 1985

TIME MINISTER

## MEETING WITH THE CHANCELLOR

You are to have an extended bilateral with the Chancellor tomorrow, scheduled to last two hours.

Two topics have been mentioned to me as ones he may want to raise with you:

- (i) JMB and Ansbacher: we discussed earlier; a copy of the article from the Spectator which you saw, is below;
- (ii) EMS: the Chancellor may want a reflective discussion with you on this; he is apparently beginning to look more favourably at the possibility of the UK joining the exchange rate mechanism. \*

Subjects you might raise with the Chancellor include:

- (i) South Africa: Dr. de Kock, Governor of the Reserve Bank of South Africa is in London. The Bank want to discuss with him the position of Barclays and Standard and Chartered, with their interests in South Africa. There is apparently no question of de Kock wanting financial support from the UK, though you will now have seen Mr. Kinnock's letter to you about this.
- (ii) The Green Paper on Tax Reform: when does the Chancellor intend to report to you on this? How are his discussions with Mr. Fowler going?

\* Apparently, he feels that the ERM will give a needed framework for monetary discipline and that, if we are to enter, best to do this within the next 6 months, well in advance of the next election.

Julie Bowers

PP DAVID NORGROVE  
29 August 1985

N.C.W.  
24.8

## A singular bank statement for Mr Hattersley's adviser

CHRISTOPHER FILDES

Here is the instructive story of the Two Old Westminsters and the Poor Old Lady, or the dog which did not bark in the daytime. It begins at Westminster School, where once upon a time there were two clever little boys, called Charles Williams and Nigel Lawson. Charles's father was a Doctor of Divinity and his mother was a Cazenove. Nigel was no doubt the more clever, but Charles was easily the more athletic, and when they both went up to Christ Church, Oxford, Westminster's sister college, he captained the university at cricket. Nigel was then led astray into financial journalism, and disappears from our story for a while. Charles went into business, then into banking, then into Barings — one of the few directors of that less than radical bank to be a Labour Party activist and parliamentary candidate. From Barings the Callaghan government plucked him to be chairman of the Prices Commission, where his writ ran over the High Street banks. Then the government fell, its Tory successor shot Mr Williams's horse from under him, and he went off to run Henry Ansbacher. Now whatever might be said about Ansbachers, Barings it isn't. It could be called a middle-bracket issuing house with an inconstant record and periodic bouts of ambition. Mr Williams caught it in ambitious mood, made his mark, made deals. He stayed there until 18 January, when he resigned, in order (as the board then said) to pursue his other business interests. These interests have since come to include an association with the British Printing & Communications Corporation, under Robert Maxwell. Other interests were signalled, this year, by his inclusion in a list of life peers nominated by the leader of the Labour Party. He is now Lord Williams. For the party, he has been advising the Shadow Chancellor, Roy Hattersley. His hand is seen in the sequence of policy statements which Mr Hattersley has been producing through the summer. In particular, the plan for a National Investment Bank is thought to be Lord Williams's brainchild, and the City, jumping to conclusions, assumes that if such a bank were set up Lord Williams would be the first choice to run it.

This stately progression of events has come to be punctuated by a sequence of noises off, coming from the direction of Ansbachers. All was not well there, it now



appears, at the time of Lord Williams's departure. Laidlaw, the New York securities house which Ansbachers bought at about this time last year, turned out to be losing money hand over fist. The figures for the full year to 31 March showed that Laidlaw and other losers had so drained Ansbachers that almost all the capital had been lost, and the £3 million that remained was covered only by goodwill. Fortunately, the principal shareholders — the Belgian group of Pargesa and Banque Bruxelles Lambert — stood by Ansbachers and enabled it keep its doors open by subscribing for a £36-million issue of new capital. At that time the board said that the interim dividend, paid in the winter, should not have been paid, that there were not the funds to cover it. Two directors, neither of whom had been on the board at the time, were asked to report: they included Richard Fenhalls, Lord Williams's successor as group managing director. Their report has now been sent to shareholders. They say that Ansbachers' interim statement for the half-year to 30 September last did not give a true and fair view, that it should have shown a substantial loss and not a profit, and that its language was unrealistic. They say: 'Summarised information was supplied to the board by the then Group Managing Director [Lord Williams] in relation to the results of the company to 30 September 1984 which omitted facts which in our view should have been made available to the board, and without which the board was not in a

position to form a true and fair view of the affairs of the company on a consolidated basis.' They considered whether any director had acted without an 'honest belief' that there were profits when there were not, and specified that they found no evidence of this in the case of certain identified directors. They find no motive of personal gain, and in view of that finding and of the company's interest in not reopening a matter of past history, they recommend that no action should be taken against any director arising out of the payment of the interim dividend. Lord Williams, commenting on this, has protested that he was never invited to give evidence to the two-man inquiry, and that he has been treated unfairly and contrary to natural justice. If so, he is not the only banker, commercial or official, to be so treated just now.

Now for the other Old Westminster and the non-biting dog. Nigel Lawson finds himself chivvied from every side, most fiercely of all over Johnson Matthey Bankers. He has never lacked the urge to fight, or the instinct for the jugular. How has he missed his chance to bite back? Why not characteristic toothmarks on the Shadow Chancellor and his chosen adviser, the ennobled banker in the deeper shadows behind him? A sense of fairness? The old school tie? Perish the thought. Mr Lawson's difficulty is his posture of defence. Don't bite me, he says, just watch me bite the Bank of England, and if you bite it, too, I won't stop you. So now we begin to get reports that Ansbachers was a mistake for the Bank to set beside Johnson Matthey Bankers — that there, too, the Bank's supervisors missed what was going wrong. That is the converse of the truth. The Bank looked at Ansbachers' figures, looked at them again and blew the whistle, forcing through the changes of management — and finally persuading the Belgians to come to the rescue. Good supervision averted a banking failure. No doubt it averted others — some four or five of them in the last few years, so the City believes. Watching banks is like watching spies — only the misses make the headlines. A pity, then, that the Chancellor has not told any part of this story; a pity that he cannot stop growling at the Old Lady. She is a faithful old thing, really, and he has more deserving enemies.

L. J. Corp Man

JM 47-8

G Mac. 68

NL

P.C. 49-50.

K.C. 45

Allen Balle  
Alan Blahé  
Bob Mann  
John Balle

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Michael Howard

Peter Lilly

Richard Byler

George Wilder

Richard Needham

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Different Results

Don Thompson

Prisoner Earl Jones

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CONF



Int  
enquiry

10 DOWNING STREET

From the Private Secretary

Prime Minister

Meeting with the Chancellor

- (1) Honours for the City
- (2) Markets . Is another  $\frac{1}{2}$  percent off  
interests desirable or not? What are  
the prospects for mortgage rates
- (3) Post market on T.S.R.B. ✓

AT

30/7

mf

pa 15

PRIME MINISTER

MEETING WITH THE CHANCELLOR

i) JMB

The Chancellor will report on his discussions with the business managers and on the terms in which he proposes to make his announcement. I suspect he may also complain about being let down again by the Bank who appear to have approached the police before talking to him.

ii) Oil

The Chancellor will want to discuss Mr. Walker's minute about cuts in oil production, royalty banking and a switch from royalty in kind to royalty in cash. He is naturally worried about the consequences for the PSBR of any action in this area.

AG

Andrew Turnbull

16 July 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

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

(i) Handling of Cabinet

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

(ii) Presentation of Policy on Public Expenditure.

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

(iii) Fiscal Adjustments

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

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



CONFIDENTIAL

-2-

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

ANDREW TURNBULL

9 July 1985

CONFIDENTIAL

14

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor will want to devote the meeting almost entirely to public expenditure. He will begin with a discussion of developments since Chequers and is likely to express his concern about the views of the Lord Privy Seal as they have emerged from his speech and his lobby briefing. The Chief Secretary is scheduled to join the meeting at 17.45. The main business will be to clear the papers for next week's public expenditure Cabinet and the E(A) meeting on nationalised industries. Drafts of the papers are attached:-

- Economic prospects      Flag A
- 1985 Public Expenditure Survey      Flag B
- Nationalised industries: 1985 investment and financing review      Flag C

The main issues are:-

- i) What should be set aside as the Contingency Reserve? Experience confirms the wisdom of substantial reserves and the Chief Secretary recommends £5b., £6b. and £7b. This would allow only £1b. of the Reserve in each year to be allocated to programmes as the Reserve is rolled forward.
  
- ii) What should be assumed for asset sales? The White Paper assumes sales of £2¼b. in 1986-87 and 1987-88. Clearly the figures will be higher than this with the sale of BGC. The Treasury suggest raising the figures to £4½b., £3½b. and £3½b. over the three years of the survey. The aim should be to set the lowest figures that is credible to the colleagues in order to leave room for a small upward

adjustment at the end of the round if that proves necessary.

iii) What should the planning total be?

In order to give the Chief Secretary and the Star Chamber an objective that can be realised the figure should be tough but realistic. The Treasury suggest setting the planning totals at the same level as in the Budget. The increase in asset sales effectively allows an extra £2½b., £1½b. and £1½b. to be added to programmes. (This in addition to the £2b. a year increase made in the planning total in the Budget).

iv) How should negotiations on manpower be conducted?

There is an outstanding remit to consider more sympathetically increases in manpower which improve revenue e.g. from expanding services financed by fees, improving tax in-flows or cutting down on benefit fraud. The Chief Secretary wants to avoid making this remit a separate exercise as he fears that in doing so the Treasury would be knocked down in the rush as it was with 1982 local authority capital expenditure. The Chief Secretary prefers to deal with this issue in the normal way, though with revenue increases as a factor to be taken into account.

v) Should the E(A) meeting precede or follow the Cabinet meeting?

Normally the E(A) discussion has preceded Cabinet but this year the Treasury suggest holding it after. The reason for this is because the targets being set for nationalised industries appear modest e.g. getting back to base line in 1986-87. In practice these are tough targets because the privatisation of BGC removes the contribution which gas has been making and the electricity industry is seeking increases as

a result of the need to increase coal stocks.  
Circulating such apparently easy targets before  
Cabinet might give the wrong signals.

*A. S. L.*

*pr.*

Andrew Turnbull

2 July 1985



10 DOWNING STREET

From the Private Secretary

Prime Minister

Meeting with the Chancellor

(i) TSRB

(ii) CGT and gifts

When the Treasury issued its statement on disposal, it hinted that some amendment to the CGT treatment of gifts might be needed - see X of Flag A. Treasury do propose to pursue this. Chancellor will explain.

(iii) Late payment of tax

Flag B sets out the Treasury's proposals for implementing the Kelcey report in the Inland Revenue field. The aim is to tighten up while increasing safeguards for the taxpayer. Flag C provides the note you wanted on symmetry between the taxpayer and the Revenue Departments.

AT 25/6

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) Monetary Policy

You have seen notes by John Redwood and by Greenwells. Alan Walters has prepared a commentary which you will have discussed with him earlier in the afternoon. Alan is not too fussed about the rapid growth of sterling M3 - M0 is growing slowly and high real interest rates provide an assurance that inflation will not be allowed to run away. He is concerned, however, that the monetary control arrangements have not worked as they were expected to do.

(ii) Long-Term Unemployment

There is a meeting next week to consider various measures to tackle the problem of long-term unemployment, such as Work Fare, Benefit Plus, a modified community programme, and a grant or tax credit to the long-term unemployed to encourage them to seek work. Some parts of Government may see this meeting as an opportunity to bring forward plans to spend more on reducing the unemployment figures. My understanding is that you are more interested in schemes which secure some contribution to society from those receiving unemployment benefit. The Chancellor is likely to share this view. This indicates that CP should not be further expanded until the problem of the link with union rates has been tackled.

(iii) Benefit Reviews

You may want to compare notes on how the announcement has gone so far. The Chancellor may share the frustration of the Labour Party about the absence of figures.

AT

4 June 1985

VC3AEC

cc PM Aug. 84  
Mtg with Governor  
of the B/EPRIME MINISTER

## MEETING WITH THE CHANCELLOR AND THE GOVERNOR

The Governor will arrive with the Chancellor at 1830 and leave around 1900. I have grouped the items to be discussed while he is there and those for the Chancellor alone.

I Chancellor and Governori) Disclosure and Gilts - Flag A

You and the Chancellor feel that the legal advice given to the Bank is extreme and unworkable. Though the Bank may feel so too, they are unwilling to challenge it and even, at one stage, asked for a Treasury indemnity if they were required to act against it. You should allow the Governor a chance to make his case but stress that the Government, as the taxing authority and as the collector of market sensitive statistics, cannot be equated with other market operators.

ii) JMB - Flag B

The Bank have issued a press notice reporting the £100m injection of capital to replace its £100m deficit; and the write-off of £245m of bad loans. After deducting the £180m of capital put in by Johnson Mathey PLC, the holding company, £65m remained to be shared between the Bank and the commercial banks. You could ask the Governor whether he believes the Bank will recoup its £100m when JMB is sold and whether the process of writing down loans is complete.

You could ask the Chancellor and the Governor for a report on the handling of the JMB affair. I understand the Governor will attach an annex to the Bank of England's annual report which is due to be published in June, chronicling the history of the JMB affair. At the

same time, the Chancellor will publish the report on the implications for banking supervision and will make a statement to the House. It would be best to leave a substantive discussion of these issues until these documents have been received.

iii) Foreign Currency Borrowing - Flag C

Although the Bank has managed to take in \$1bn in market intervention since the beginning of the year, this has been largely offset by the foreign exchange supplied to Government departments, leaving a net increase of only £200m. Replenishing the reserves by this route will be very slow. The indirect borrowing conducted in the 1970's via the nationalised industries is now much more difficult with BT, BGC and BA in or heading for the private sector. The Chancellor therefore recommends \$1½ - 2bn of Euro dollar borrowing. This appears to be a sensible course but you might want to check with the Chancellor and the Governor that they have covered all of the presentational pitfalls.

II Chancellor Only

iv) Mercury - Flag D

Following extensive but unsuccessful talks with the Treasury, Mr. Tebbit raised with you his dissatisfaction about the extent to which Mercury was securing Government business. You asked him to minute you so that you could take this up with the Chancellor. This he has now done and his minute in effect puts forward the infant industry argument - that even though Mercury may be more expensive now, it is in HMG's long run interest to use Mercury so that it is established as a competitor to BT and so that in the long run prices are lower. The Chancellor will no doubt want to put his side of the case.



v) Public Expenditure Priorities - Flag E

At the post mortem discussion in January on the 1984 public expenditure round, the suggestion of a priorities meeting outside the normal run of Cabinet business was put forward. Arguments for and against were raised and no final decisions were reached. A number of spending Ministers have argued in favour of such a meeting while the Treasury fears that it could prove counter productive if spending Ministers use the occasion to fight their own corner and if decisions are taken which close off options before the bilaterals have even started.

I suspect the Chancellor is rather unenthusiastic but feels that there might be a diplomatic case for such a meeting. The options for Chequers meetings on a Sunday appear to be:

i) Before the public expenditure season starts, eg 16 June.

ii) After the economic Cabinet on 4 July. Diary difficulties limit the choice to 7 July or 28 July. The former is rather too soon as it may cast a shadow over the Cabinet meeting and make it more difficult to secure agreement to the public expenditure totals. 28 July is leaving it rather late.

iii) September, before the bilateral discussions get seriously under way. I understand Lord Whitelaw may favour this course.

If you favour a meeting on any of the dates before the recess, a decision is needed quickly as Ministers will otherwise have committed themselves elsewhere.

---

AT

PRIME MINISTER

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BILATERAL WITH THE CHANCELLOR

(1) Review Body Reports

Ministers are discussing these on Wednesday. The Cabinet Office brief will arrive during the course of the day but you should have a chance to look at it before meeting the Chancellor. The recommendations are compared with those made last year. The percentages for Armed Forces and Doctors and Dentists are lower, but still considerably above offers to most other public sector groups. The nurses' figure is high as is the additional cost to the pay bill. In the case of PAM's the increase in the pay bill is small but the percentage increase is exceptionally high.

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(2) Local Government Finance

You are aware of the Chancellor's reservations about building up expectations, especially about a poll tax.

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(3) Gilts Prospectus

Treasury wish to issue a statement which will clarify the status of the gilts prospectus and hence avoid the problem the Government encountered in February where its legal advice was that by the time you have thought of doing something you should have informed the markets. Treasury are having difficulty with the Bank of England who fear such a statement might not be regarded as "clarification" but a unilateral change in the terms of the prospectus. The Chancellor will report on his discussions with the Governor.

---

The Chancellor may also mention a matter connected with the Palace.

HS

3 May 1985

## REVIEW BODY RECOMMENDATIONS

	1984		1985	
	%	cost	%	cost
Nurses	7.5	£228 million	8.6	£286 million
PAM's	7.8	£ 18 million	12.1	£ 32 million
Doctors & Dentists	6.9	£118 million	6.3	£122 million
Armed Forces	7.6	£198 million	7.06	£205 million

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PRIME MINISTERBILATERAL WITH THE CHANCELLORI. Social Security Reviews: Pensions

The position is still fluid and will develop further tomorrow. Lord Whitelaw and the Chief Whip are "moving between the parties" to see if an outcome can be reached which delivers the political prize you and Mr. Fowler seek but which does not make life impossible for the Chancellor. Three compromise options have been canvassed:

- (i) Abolition, voluntary provision with the threat of subsequent compulsion;
- (ii) Abolition, with compulsion deferred, say, two years;
- (iii) Abolition, compulsion with contributions to private schemes and the realignment of NICS phased in over, say, two years.

It has been made clear that (i) and (ii) are unacceptable to you. The Chief Whip has met Mr. Fowler and has reported that the latter is working on a scheme to produce (iii). He will meet the Chancellor and Mr. Tebbit in the morning to discuss this further. I will report back during the course of the day.

Mr. Fowler may argue that if phasing is applied to the compulsory contributions and the harmonisation of contracted in and out NICs, there should be a phasing out over a similar period of SERPS, i.e. people should continue to accumulate rights to SERPS but at a diminishing rate. There are political arguments in favour of this. First, it provides reassurance to those within a few years of retirement who will worry

about losing SERPS benefits without having time to build up as much through the compulsory scheme. Secondly, it will provide a justification for maintaining different NIC rates for a time after 1987. Thirdly, it will help mollify the big CBI companies who would lose most from the abrupt change. But does it look half-hearted about abolition of SERPS? Not necessarily - like the reform of Corporation Tax, it will all be legislated for at the start and by the time of the Election people will still have begun to accumulate private pensions.

II. Money Figures

The Chancellor can provide his interpretation of the growth of £M3. Are there any special factors at work? Is it a sign that monetary conditions are deteriorating? Or, as I suspect the Chancellor will argue, is it a sign that £M3 is more and more flawed as an indicator?

III. Local Government Finance

The bilateral follows immediately after the meeting on Scottish rates at which you will be discussing the line to be taken on rate reform at the Conference. The Chancellor will be arguing in favour of a cautious line.

AG

30 April 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

i) Social Security Reviews

The Prime Minister will no doubt want to talk about the issues raised in his minute (Flag A).

- On what basis should SERPS be abolished? You will want to impress upon him your strongly held view that there must be a compulsory replacement.
- If there is a compulsory replacement, should enactment of abolition of SERPS and its implementation straddle the Election? What are the politics of this?
- How can the economic consequences of a large rise in compulsory savings be handled?

The objective is to bring this back to Cabinet next Thursday. DHSS and the Treasury are seeking to agree figures and set out the choices. They hope to complete this by close on Friday so that there can be a discussion of a small group before Cabinet early next week. I suggest inviting the Lord President, the Chancellor, the Secretary of State for Social Services, the Secretary of State for Trade and Industry and the Chief Whip.

*Done ✓*

ii) Late Payment of VAT

You expressed concern about this. The attached note (Flag B) sets out the issues. Not only did the Chancellor announce this in the Budget but there has been very extensive consultation which has led to modification of the original proposals.

iii) Tax Treatment of Donations to Charities

Sir Emmanuel Kaye has been pressing for changes to the tax rules under which a close company's covenanted payments to charity are apportioned to the company's shareholders. This particular case is now subject to judicial review and is therefore sub judice. The Chancellor argues against making any changes to the rules at present. (Flag C).

iv) Tax Treatment of the Arts and Heritage

Lord Gowrie raised this with you. He has now agreed with the Chief Secretary that there should be a review of the arrangements for acceptance in lieu of capital transfer tax. In return Lord Gowrie has agreed not to press for any further taxation changes for the heritage. (Flag D).

v) National Insurance Contributions

The Chancellor has produced a note (Flag E) explaining the new basis for NICs. He argues that constituting NICs on a threshold basis would be too expensive (paragraph 13) and marginal relief would be too complicated. He also argues that the new system gives substantial benefits to the lower paid (paragraphs 9 - 12), while the three separate steps are an improvement on the one big step (paragraphs 3 - 7).

Mr. King has also provided a note (Flag F) which indicates that there are a substantial number of employees with earnings close to the lower earnings limit. The data suggests some bunching just below the limit and a fall-off in numbers just above. This and other evidence points to some modest distortion of employment patterns by the limit.

vi) Local Government Finance

The Chancellor may express caution about promising too much too soon from the Review of Local Government Finance. In particular he may express doubts about whether the poll tax will stay the course.

vii) Washington Meetings

The Chancellor can report on the outcome of the meetings last week and their implications for next week's Economic Summit.

(viii) Priny Councilorship for Treasury Ministers  
You may wish to explain your decision to be Chancellor.

AT

Andrew Turnbull

24 April 1985

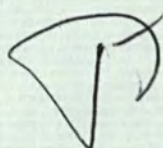


PRIME MINISTER

Bilateral with the Chancellor

The Chancellor is likely to wish to discuss:

- (i) The current state of play on the social services reviews. I understand that it is unlikely that the outcome of Misc 111 will now be discussed at the 18 April Cabinet Meeting, when, in any event, the Chancellor is in Washington. The Chancellor is likely to press for a further attempt to achieve greater savings along the lines set out in the minute of 1 April which you saw before the last Misc 111 meeting. He may be looking for savings in child support or, more likely, in not uprating the unpledged benefits.
- (ii) He may wish to discuss the next move in the Civil Service pay negotiations. A minute canvassing the options is attached. On previous form it is likely that Norman Fowler at least will dissent from the Treasury recommendation.



12 April, 1985.

Meeting with the Chancellor  
Wednesday 27 March, 1730

The subjects on the agenda are:-

1. MISC 111

The Chancellor is depressed at the way it is going. Despite the majority view at Monday's meeting, he would like to make savings on child benefit. If he cannot make savings there or on the uprating of the unpledged benefits, he thinks that the Committee will have to go back to housing. He also thinks that Mr Fowler is unnecessarily rushing the timetable.

2. Gas prices

The Chief Secretary wrote to you on 22 February (copy below) about the remit of October 1983. The Chancellor thinks that the discussion with Mr Walker about privatisation makes it more important to get gas prices on to a proper basis.

3. Civil Service Pay

The Chancellor will want to clear with you the terms of an offer.

4. NEDC Dinner

The Chancellor is now thinking of suggesting that, instead of the Dinner, you chair a meeting later this year; or that (alternatively or additionally) you might mark NEDC's Silver Jubilee in 1986 in some way.

5. Covenants to charities by close companies

You want to raise with the Chancellor Emmanuel Kaye's point about the Inland Revenue's apportionment to close companies' charitable donations among their shareholders (papers below).

6. Chequer seminar on local government finance  
Chancellor, rather than the Chief Secretary, F.R.B.  
to attend?

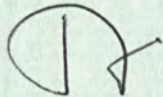
MR BUTLER

Tim  
Mary Hanker.

PERB

For the Chancellor's bilateral on Wednesday you might be aware that he proposes to suggest to the Prime Minister rather than holding a dinner for NEDC, as was originally envisaged, she might like to consider chairing a meeting later this year. Alternatively, or additionally, she might like to consider marking NEDC's Silver Jubilee in 1986. He would not however press either of these ideas.

In reaching a view on the Chancellor's suggestion it might be worth getting the views of the Employment Secretary on whether something along these lines might help to assist in the process of re-establishing business-like relations with the TUC following the coal strike.



22 March 1985

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

(i) Budget - Indirect tax. The Chancellor seeks clearance for the proposals in his minute attached - Flag A.

(ii) Gas Prices. You expressed reservations about a study into gas prices - Flag B. Policy Unit prefer to concentrate on privatisation on which Mr Walker is producing a paper in the next two or three weeks. The Chancellor wants to make a start on raising gas prices from early 1986 in order not to bring this too close to the election. The benefits of privatisation may take longer to come through.

(iii) MISC 111. How can the larger savings on social security be secured? (See Chief Secretary's minute at Flag C). Mr Fowler has returned wounded to his tent and MISC 111 is stalled. RTA is holding a meeting tomorrow to discuss how to get things moving again. It seems clear that Mr Fowler can deliver up to £¾ billion from the review but the difficulty will be to secure the extra £1 - 1¼ billion to achieve a target of £2 billion. With most of the first £¾ billion coming from SB and HB the net will have to be cast wider to include child benefit. The choice is between a means tested benefit or an across the board cut. David Willetts will be providing a note tomorrow on the options.

(iv) Markets. The market report - Flag D showed that the G5 agreement is alive and well. Intervention by all countries totalled around \$2 billion though the UK's contribution was less than \$100 million. The Chancellor can report on the background.

AT

Andrew Turnbull  
27 February 1985

UnEx Bilak .

18.12



Subject: [illegible]

[illegible]

[illegible]

PRIME MINISTER

Bilateral with the Chancellor

- (i) Autopsy on Cabinet discussion and report on reactions to Chief Secretary's TCSC appearance.
- (ii) Report from Chancellor on progress in framing his budget. In particular, Chancellor will be able to report on his meetings with Mr King, Mr Fowler and Lord Young on the training and employment measures. He has a meeting later in the day to discuss the tax side and so may have little further to report here.
- (iii) Briefing for Washington. Chancellor has submitted a note on the US dollar, intervention, and the budget deficit.

AT

Andrew Turnbull

18 February 1985

Subject on ECO POL  
Public Expenditure  
Part 31.

PRIME MINISTER

mt

The Chancellor has asked if he can come and have another talk with you in preparation for the economic discussion at Cabinet next Thursday.

As the Treasury have looked closer at the public expenditure prospects, he is becoming more and more worried about it. It is beginning to look impossible to maintain the planning total for next year. He would like to share the problem with you, and discuss with you how you feel that it should be approached.

Since you have the YC speech on Saturday, and then have a dinner on Sunday evening after you return from Chequers, the best time for a talk with him looks likely to be tomorrow evening after you have finished preparing the YC speech. So we have put the Chancellor in the diary provisionally at 1700. But he has no engagements during the evening, and if you need more time on the YC speech he will be perfectly happy to come in later in the evening.

F.R.B.

Dick

7 February, 1985.

SECRET

New lower mile  
Parliament - market related issues  
Out of contract - 57%  
Royalties in cash  
B.N.O.C.

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I. Financial Markets

The money supply figures have given some assistance to the money and gilts markets, but the exchange rate still remains fragile. While the strength of the Dollar and uncertainty about oil are clearly factors, the markets are more and more coming to suspect that money supply growth is too fast. Rapid growth of bank lending (£1½ billion a month), high borrowing requirements and poor gilt sales are a recipe for continued high growth of the money supply. Is the Chancellor confident that, even if interest rates can be held, that they should be held?

II. BNOG

This is a chance to concert your tactics before the meeting immediately afterwards with Mr. Walker. The latter will no doubt play for time pending his meeting with Yamani, which is likely to be next week. Your aim should be to pin him down on what the Government would like to do so that he is clear what propositions he should discuss with Yamani. The options are set out more fully in the note for the BNOG meeting.

III. Employment Seminar

There is a meeting on Monday to discuss Mr. King's paper, and you have an opportunity, therefore, to discuss with the Chancellor what you both want to emerge. The key decision is whether a separate White Paper is likely to help the Government in the presentation of its case, or whether it would be better to subsume everything in the Budget



SECRET

presentation. The Chancellor is likely to argue that decisions involving expenditure, taxation or insurance contributions should be announced in the Budget speech. There could still be a role for a White Paper which brought together these decisions with other 'pure' employment policy decisions such as that on Wages Councils.

IV. The Infrastructure/Tax Cuts Debate

The Chancellor can report on the NEDC meeting which discussed the rather critical report by the NEDO Secretariat. He can also advise on the best way to present the Government's arguments.

V. The Budget

The Chancellor is meeting Treasury colleagues and senior officials at Chevening this weekend. It would be helpful to agree with him the timetable for discussions on Budget strategy and the taking of individual decisions. It would be useful to have a meeting reasonably soon after Chevening, e.g. the week of 25/26 January, to discuss the broad outline. This can be followed by two or three meetings in early February to clear the major decisions, with the bilaterals in March being used to establish the presentation. - *Attached is a note on the broad themes of the Budget to John Redwood.*

VI. Chancellor's U.S. Trip

The Chancellor may mention his trip to the U.S. on Wednesday to Friday of next week for the G5 meeting, though it is not yet clear whether this will still go ahead following the switch of jobs between Regan and Baker.

AT

9 January 1985

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Flag A (i) Argentina

The Chancellor is seeking your agreement that the UK Government should take part in the Paris Club negotiations on the rescheduling of official debt. HMG is providing no new money though British banks are participating in both the provision of new money and the rescheduling of existing lending.

Flag B (ii) Johnson Matthey Bankers

The Chancellor will be making an oral statement on Monday announcing the reviews. You could ask him for an assessment of the lessons on banking supervision to be learnt from this episode. You could also ask whether the Treasury is monitoring closely the Bank's exposure to JMB. Although the Bank argue that little of the indemnity will be called upon, and that if it is it will come from their own resources, it is a fiction to suppose that this <sup>would have</sup> ~~has~~ no impact on public finances. If the Bank's profits were substantially reduced by a loss from JMB it would inevitably affect the dividend to be paid to HMG.

(iii) Your Visit to the United States

You could compare notes on your respective discussions with Mr. Volcker.

FLAG C (iv) Court Appointments

The Chancellor may bring forward suggestions on the appointments to the Bank of England Court. You should be aware of the story in today's FT about the Deputy Governor.

(v) IMF Mission

You can ask the Chancellor for an account of the IMF's findings.

AT

ANDREW TURNBULL

13 December 1984

Ch Ex Bilat

1.3

COLOMBIA

PRIME MINISTER

Meeting with the Chancellor

- (i) Follow-up on student grants.
- (ii) Points to be made in the Autumn Statement debate.
- (iii) Markets, including first guess of 2½ per cent for £M3. Is this a genuine increase or an accumulation of deposits ahead of BT issue?
- (iv) BT. How has 40p premium arisen?  
Is this a problem?  
Are there any lessons to be learned?  
How should you defend it in the House?

*Duty Clerk  
H.*

ANDREW TURNBULL

4 December, 1984

CONFIDENTIAL

Briefing

PRIME MINISTER

J.N.O.C.  $\int$  1m a day  
Formula system of rates.

B' bench Education  
Committee.

Bilateral

Public Expenditure

The Chief Secretary's minute indicates the pressures which the Treasury is under. Between you, you, the Chancellor and the Chief Secretary will have to resist strongly any future claims on the contingency reserve, as you did today with the "switch". The next difficulties will be:

- i) student grants where 80 Government backbenchers have signed an Early Day Motion. I detect signs of nervousness on the part of the Party managers. The Government has a good case which Sir Keith is deploying resolutely.
- ii) local authority capital expenditure where the Chancellor's meeting ended in disarray after the Department of the Environment came forward with proposals which would have permitted an overspend of up to £1.9 billion.

Banking Failures

It might be helpful to discuss Alan Walters' note with the Chancellor. There are, in fact, a number of arrangements agreed between central banks for handling such cases. The question is whether they are adequate or whether the mechanisms exist to detect problems in time.

Markets

The pound has been weak in the last few days, probably on account of oil though the dollar has risen despite declining interest rates in the US. So far, the reduction in UK interest rates has been held and the stock market has been buoyant.

Duty Clerk.

PP Andrew Turnbull  
28 November 1984

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

i) Foreign Office Programme

The Chancellor has spoken to the Foreign Secretary and has reached an accommodation. I believe this implies keeping to the published totals, which Sir Geoffrey told the House today might involve "modest" cuts in the aid programme but with famine relief being maintained. There would, however, be a private arrangement under which Treasury and Foreign Office officials would go over the diplomatic programme to see whether there were savings which could be made. If, after setting the aid programme, it were concluded that the impact on the diplomatic wing would be too harsh, the Treasury would consider an additional bid but this would not be formally recorded at present.

ii) BT

Mr. Pattie has minuted you on the outcome of the pricing meeting. The Chancellor will be able to give you a bit more of the background.

---

iii) Northern Ireland Industrial Bank

I have prepared a separate note for you about this. If this institution fails there will be tricky questions to be answered. You can go over these with the Chancellor.

---

iv) Post Mortem on Autumn Statement

You can discuss the reactions to the Autumn



Statement and identify points at which the Government's defences need to be strengthened. It would be helpful if you let the Chancellor know that you had heard that his performance in the debate was more impressive than in the unemployment debate, and that he had received more support from the Government side.

AT

Andrew Turnbull  
14 November 1984



10 DOWNING STREET

*From the Private Secretary*

Prime Minister

Bilateral with Chancellor

- (i) How to tackle Mr Walker
- (ii) How to close residual gap  
on public expenditure
- (iii) Post matter on unemployment  
debate and themes to be  
developed.

AT

21/10

PRIME MINISTER

Chancellor's Bilateral

(i) Senior staff appointment. This can be dealt with a deux at the start.

(ii) The £1 coin. Chancellor will seek to persuade you that the £1 note has to go some time so it is better to take a deep breath and get it over with.

(iii) Trade figures. It may be helpful to discuss with the Chancellor the <sup>note</sup>~~rate~~ you should strike if you are questioned about this. (It seems to have had no impact on the exchange rate.)

(iv) Partnership taxation. I don't understand this subject. The Chancellor will explain why he is proposing not to change current year basis of assessment.

a) Coal  
Oil  
Coal ?  
Cost across the  
countries  
b) Now  
Import  
early

Duty Clerk  
PP. A.T.

24 October 1984

7

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor is likely to raise the following:-

(i) Autumn Statement/BT

The Chancellor has spoken to Mr. Pattie and has, I believe, reached agreement though this is being cleared with Mr. Tebbit in Brighton. The Chancellor is likely to report that he will aim for an autumn Statement on Monday, 12 November with the economic day of the Queen's Speech Debate on the Tuesday. If the public expenditure discussions are not completed in time the Statement should be delayed two weeks. When faced with the choice between sticking to 16 November with the public expenditure round still going on and moving the impact day until after the autumn Statement, those handling the BT issue prefer to stick to their plans. 16 November is already becoming known publicly as the most likely day and a decision to delay would signal now that difficulties were expected with public expenditure.

(ii) The Exchange Rate and the Oil Market

(iii) The Prospects for Public Expenditure

(iv) The Chancellor's wish to appoint Mr. Peter Lilley as his PPS.

(v) The proposal that Mr. Burgner should move to the Industrial Relations Deputy Secretary post at the Department of Employment.

BT

17 October, 1984

PRIME MINISTER

Bilateral with Chancellor of Exchequer

1. Review of the Markets, which were looking better yesterday.  
Evening Report.
2. Timetable for Public Expenditure Round.  
The Chancellor will be sending you a letter on this, but he may want to give you advance warning. He will be working back from the BT Flotation on 16 November. This implies an Autumn Statement on 13 November, and Public Expenditure Cabinet on 8 November. This will imply a dreadful first half of November for you - 2 major speeches, and the conclusion of a very difficult public expenditure round.

*TMS. (Duty Clerk)*

p.p. ANDREW TURNBULL

2 August, 1984.

6

PRIME MINISTERBILATERAL WITH THE CHANCELLOR1. Public Expenditure Prospects

The Chancellor wishes to take you through the magnitude of the problem and the difficulty of the options which will have to be considered. He will also want to agree with you the degree to which you are involved in the discussions. It is probably best for you to hold yourself in reserve to try and settle those differences which not even the Star Chamber is able to resolve.

2. CAA Review

The Chancellor had a further word by telephone with Lord King but got no further. He will want to discuss how next to proceed. The options are to concede now that Lord King will give no ground and to make a statement along the lines suggested at the E(A) meeting; or to play for time in the hope that some way of resolving matters turns up. New factors may not necessarily be helpful, e.g. the Laker judgement, whose implications for privatisation have yet to be studied.

AT

25 July 1984

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) Postmortem on last week's developments in the markets.

Are there any lessons to be learnt? Is there any basis to the criticism that with better handling a smaller increase in interest rates could have been got away with? How many building societies will raise their interest rates beyond the agreed 12½ per cent (Abbey National have gone to twelve and seven eighths per cent and a number of others are effectively doing the same thing by adding on amounts for larger mortgages)? How do the immediate prospects look?

(ii) Handling of the Disputes

After reflection, how does the Chancellor see the politics of emergency powers? Does their use display determination or weakness? Will they harden the alliance between dockers and miners or will they contribute to resolving the strikes by showing the Government's strength? Is the contribution from servicemen commensurate with the expectations which will be generated? How would markets react?

The Chancellor has written to colleagues most closely concerned with his proposals for an increase in electricity prices. A meeting has been arranged for next Monday. I see no need to discuss this tomorrow.

17 July, 1984

CONFIDENTIAL

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WGX Biluk

11 11



RECEIVED

RECEIVED

COMPILING



PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Only two topics:

(a) Markets and interest rates

Chancellor will be discussing the situation with the Bank in the morning. He may want to resist a further rise in interest rates though this may prove difficult given tomorrow's money figures. Like Sir Alan Walters, he would want to keep any rise to a minimum.

(b) Local authority capital expenditure

You may want to discuss the handling of E(A) in the afternoon.

ANDREW TURNBULL

9 July 1984

PRIME MINISTERMEETING WITH THE CHANCELLOR AND CHIEF SECRETARY

This week's meeting has been brought forward so that you and Treasury Ministers can consider the tactics for the conduct of the Public Expenditure Cabinet on Thursday. Having agreed a line, you and Treasury Ministers may want to speak in advance to various colleagues. The objective should be to secure endorsement of the existing Public Expenditure totals and to do better on the manpower totals. It would be helpful, if after the Chief Secretary and Chancellor have spoken, a supportive voice were heard. You may then want to bring in the more critical voices saving two or three supporters to speak at the end. If these tactics are adopted the key position is occupied by the minister who picks up the debate after the succession of critical comments.

You may also want to discuss: E(LA)

- (i) Local authority capital expenditure where the Chief Secretary - see attached minute - has suggested a moratorium to the Secretaries of State for the Environment and for Wales. He will want to discuss the handling of this, whether it should go initially to E(LA) or direct to Cabinet or whether you should hold an ad hoc group (a difficulty with the latter is that it may be difficult to bring in enough helpful neutrals).

Cabinet Office  
suggest E(LA)  
next Tuesday

300m  
overhead.

- (ii) Money supply - the first guess figures have come to you through the hot box.

The Chancellor will be writing to you separately about the need to raise electricity prices so I suggest you wait for his minute ~~\_\_\_\_\_~~ AT

SECRET

bc JR  
5

PRIME MINISTER

Meeting with Chancellor and Chief Secretary

Chancellor and Chief Secretary will want to know that you are happy with

- (i) their four papers for Cabinet and E(A)
  - Economic Prospects
  - 1984 Public Expenditure Survey
  - Contracting Out
  - Nationalised Industries Investment and Financing Review (for E(A) on 3 July)
- (ii) their proposed handling as in final paragraph of CST's cover note.

The papers are about the next three years, but you will want to discuss whether a response is needed this year to capital overspending by local authorities. There is already talk of a moratorium which may lead some authorities to advance plans still further.

You will also want to discuss the latest position in the markets where the dollar has hardened still further.

Finally, Chancellor will have discussed the film industry earlier in the day with Mr. Tebbit. I hope he will be able to report an agreement to save you having to arbitrate.

AT

26 June 1984

SECRET

PRIME MINISTER

Bilateral with Chancellor

Chancellor has given notice of two issues for the  
bilateral:

(i) The PES round - what the early indications  
are: How Chancellor wishes to handle expenditure  
Cabinet on 5 or 12 July. You should agree on  
timetable for Chancellor to prepare a draft paper  
and clear it with you.

(ii) Argentina - what is the latest position in  
the negotiations? What line are our banks taking?  
Is there anything the Government can do to ensure  
that they do not retreat from insisting on an agreed  
letter of intent and a contribution from Argentine  
reserves before any further loans are made?

19 June 1984

AV

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SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) 1984 Social Security Up-rating

Mr. Fowler will be announcing the changes in social security benefit rates on Monday. These will include the changes resulting from last year's PES round as well as the normal up-rating. These are all set out in the minute attached which Mr. Fowler has circulated to colleagues. All the items are agreed except that Mr. King is objecting to the proposal to shunt payment of unemployment benefit back one week. As the minute explains, there are good reasons for this - payment in arrears brings UB into line with payment of wages so that there are no distortions as people move from a job to unemployment back to a job. In addition, the change saves 200 posts in the Department of Employment as it is no longer necessary to chase up over payments. Mr. King will not be writing but proposes to raise the issue orally at Cabinet.

You may want to discuss the handling of this with the Chancellor. While it is right that colleagues should be made aware of unpopular decisions before they are announced, you will not want to allow Cabinet to re-open elements of the package agreed between Mr. Fowler and the Chancellor. These implement the decisions of the last PES round plus the changes needed to finance the concessions made on housing benefit. You should therefore indicate that discussion will be confined to the question of unemployment benefit.

SECRET

- 2 -

(ii) Argentina

The Chancellor could bring you up to date on Argentina's latest move in submitting a Letter of Intent to the IMF Board without the agreement of the IMF team of negotiators. There is also Argentina's threat to talk directly to banks if the IMF rejects this package. You will want to consider how the British banks should respond to this.

(iii) The Chancellor may want to give you an early indication of the PES round.

(iv) You might want to compare notes on the outcome of the Summit.

(v) The Chancellor may report on financial markets. Three-month inter-bank rate has eased a little further and now stands at nine and five-sixteenths.

185

12 June 1984

PRIME MINISTER

Bilateral with the Chancellor

i) Financial markets

These are in much better shape than on Wednesday and Thursday of last week. The crucial events seemed to have been your statement yesterday that no rise in interest rates was justified and the CBI survey which shows that companies expectations about higher prices are lower than at any time since the autumn of last year.

ii) EC Commissioner

I do not know what the Chancellor intends to raise under this heading.

iii) Economic Summit

You could confer on the line you will be taking on the main issues of the Summit:

- US deficit (if you have not already done so you may wish to debrief the Chancellor on your meeting with President Reagan).

- international debt - protectionism.

(iv) Sleipner Gas:

*Mark Lee*  
PP Andrew Turnbull.

5 June 1984

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Following last week's bilateral, you asked for a further note to go over the current economic scene at greater leisure. There are a number of features to be considered, several of which are worrying:

(i) Interest Rates

3 month inter-bank rate rose today to  $9\frac{15}{16}$  per cent threatening the  $9/9\frac{1}{4}$  per cent structure of base rates. Should the Government resist a further rise in base rates on the grounds that it is the product of market nerves, rather than being justified by underlying conditions; or should it acquiesce? Much depends on just how hard resistance turns out to be. It is not helpful for the authorities to be seen to be desperate to hold down interest rates. The money supply figures to come out on Tuesday are likely to be reasonable, and certainly better than market expectations.

(ii) Equity and Gilts Markets

Following a switch-back day, the FT Index closed 6.5 points down. The gilts market, by contrast, recovered.

(iii) US Markets

Where the 3 month rate is now  $11\frac{11}{16}$  per cent and bond rates nearly 14 per cent. - See attached note by John Redwood

(iv) Foreign Exchange Markets

So far, conflicting influences have held sterling steady.

/ (v)



(v) Public Expenditure

Where around £1 billion has to be allowed for the cost of the coal dispute.

(vi) Inflation

What are the prospects for getting to 4½ per cent by the autumn, as promised in the Budget?

(vii) The Pay Round

Although railways have been settled, there are still problems, particularly with the Post Office and teachers.

(viii) Trade Figures

How does the Chancellor assess market interpretation of the outcome?

At 5.30 p.m. the Governor will join the meeting to discuss international debt and the problems of banking. You might like to look at the latest debt report. The Governor will come prepared to update the position. He will also be prepared to discuss the proposition that tax relief for bad debts inhibits proper provisioning. A note by John Redwood argues that this is not a serious problem.

AS

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COMMISSIONER

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor is likely to raise:

(i) the position of the contingency reserve which is under severe pressure;

(ii) Current economic indicators. After a long run of favourable indicators, recent indicators have been disappointing eg PSBR, trade figures\*, inflation, earnings, GDP (though other indicators such as CBI surveys, cyclical indicators and consumer expenditure still look bright). The prospects for the wide monetary aggregates for the period May-July are also poor, reflecting the pattern of the PSBR. You will want to discuss whether the cumulative impact of these indicators is cause for concern.

\* a note explaining recent movements in the Hot Base

(iii) Fees for non-elected directors of the Bank of England have been fixed at £500 a year since 1880. The Governor wishes to raise these to £5,000 which he considers is reasonable for one morning's work a week. This requires a supplement to the Bank Charter which may need your agreement.

(iv) Civil service pay - see Chancellor's minutes

AT

23 May 1983

SECRET

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

The following subjects are likely to come up:

i. Securities Regulation. <sup>Flag A</sup> The Governor has written to you outlining his proposals for a group of senior City figures to suggest ways in which the Gower framework of self-regulation could be made to work. You indicated that you would like to talk to the Chancellor and Mr. Tebbit about this before replying to the Governor. In Mr. Tebbit's absence in the US, the Chancellor has set up a meeting tomorrow morning with the Governor and Mr. Fletcher. He will report on the outcome and advise on how you might reply to the Governor. You might like to look at the Policy Unit note on investor protection which is attached. <sup>Flag B</sup>

ii. World financial markets. You have received a blood curdling account of the dangers facing the world financial system from Sir Robert Muldoon. He mentioned the problems of Continental Illinois but he will not have known that it will shortly be announced that the rescue package from other banks has failed to restore confidence and stem the outflows, and that the bank will be declared insolvent. Responsibility for coping with the problem falls to the Federal Deposit Insurance Corporation and the Fed itself. It has been argued that a key difference from the 1920s and 1930s is that there are now lenders of last resort to prevent a cumulative collapse. Continental Illinois will be a major test of this and if a cumulative collapse is

/ prevented

SECRET

-2-

prevented some good may have been done. Interestingly it appears to have been unsound domestic lending rather than an international default which has brought Continental Illinois down.

The Chancellor will have seen Sir Robert Muldoon at the meeting of the Commonwealth Consultative Group in the morning and he will report on the discussion. On Thursday he goes to the OECD for a meeting of the G10 which will undoubtedly discuss these issues. Following the sharp rise in US interest rates, the Chancellor may want to discuss how far it is right to keep criticism of the US deficit off the Summit agenda.

iii. You could ask the Chancellor to report on domestic markets. Fears of a further rise in the bank rate have ceased somewhat but there are still clouds on the horizon. Banking May ended today and gilt sales totalled £540 million against the target of £1250 million, some £700 million short. The figure for the PSBR in April is due to be published on Friday, and the Chancellor may have the advance figures.

Flag C

iv. Sleipner Gas. The Chancellor and Mr. Tebbit have both written to Mr. Walker urging that acceptance of the Sleipner deal be made conditional on allowing exports of UK gas. It may be helpful to discuss, not substantive issues, but the best way to handle this decision. You may wish to hold a meeting with the Chancellor, Mr. Tebbit and the Foreign Secretary.

Flag D

15 May 1984

SECRET

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor will want to raise the following:

- (i) interest rates and the exchange rate
- (ii) costs of the coal dispute - see attached note ?
- (iii) the future of NEDC. He attended a bipartite meeting today. Another meeting on this basis has been arranged for June following which NEDC will take a long holiday until September, by which time the TUC will have held its Conference and may have decided its permanent attitude to this body.

AT  
ms  
ANDREW TURNBULL

8 May 1984

CONFIDENTIAL

CONFIDENTIAL

Bilateral with the Chancellor

He will want to raise:

- ✓ (i) EC Budget, in advance of your meetings with Chancellor Kohl and President Mitterrand.
- ✓ (ii) Sir Kenneth Couzens' candidature for Secretary General of OECD. The Chancellor will urge that when you see Chancellor Kohl you request him to put his support behind Sir Kenneth's candidature if, as now seems likely, the Germans have no candidate of their own to put forward. If German support is secured the Chancellor would like you to send a message to the Americans urging that they should support Sir Kenneth rather than the French candidate they have been considering.

You may want to raise with him:

- ✓ (iii) The Government reaction to the Review Bodies. All the recommendations are troublesome and the best response at this stage may be to play for time while as many major settlements as possible are secured elsewhere in the public sector.
- ✓ (iv) You could ask the Chancellor whether any advice has been received from Warburg's on Wytch Farm.
- ✓ (v) The tariff formula for BT. The Treasury are still resisting the BT/DTI proposals on modification of RPI minus X where inflation is very low, feeling that sufficient concessions have already been made.

AT

ANDREW TURNBULL

27 April 1984

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

Bilateral with the Chancellor

The Chancellor may raise:-

(i) The implications for financial markets of a default by Liverpool City Council. You will want to get an assessment from the Chancellor of whether the consequences would be confined to Liverpool or whether disturbances could spread more widely.

(ii) HOTGAS: the Chancellor will bring you up to date on this.

(iii) Nurses' Pay Review Body: copies of the report have been sent on a restricted basis to the Chancellor and the Secretary of State for Social Services. No action is in hand until the other Review Body Reports come in next week. A meeting of Ministers is planned for 3 May to discuss all the Reports. You will want to explore with the Chancellor how the Government should react should all the recommendations be for 7% or more.

(iv) Director General of NEDC. The Chancellor may comment on the way Mr. Cassels is carrying out his task. The Chancellor may feel that he is proving less sympathetic to the Government than was hoped. As evidence of this, there are the remarks Mr. Cassels made after the recent discussion on employment - see attached.

You may want to raise with the Chancellor:-

CONFIDENTIAL

/ (v)



Wyke Farm:

(v) Whether any progress is being made in identifying an option which is satisfactory to all parties.

(vi) His impressions of the IMF Interim Committee and in particular the international debt problem.

AT

13 April, 1984.

CONFIDENTIAL

**INDEXATION**—Indices of earnings (Jan 1980=100); basic materials and fuels, wholesale prices of manufactured products (1960=100); retail prices and food prices (1974=100); FT commodity index (July 1962=100); trade weighted value of sterling (1975=100).

	Earnings*	Basic matls.*	Wholesale mnfg.*	RPI*	Foodst*	FT Comdty. Strig.
<b>1983</b>						
1st qtr.	144.7	124.6	121.8	327.0	302.1	277.29
2nd qtr.	148.0	123.6	124.2	333.7	306.3	272.89
3rd qtr.	150.9	124.7	125.1	338.0	310.4	288.14
4th qtr.	153.2	128.4	126.7	341.8	316.4	298.50
August	150.4	124.6	124.9	338.0	309.4	293.02
September	150.5	126.5	125.7	339.5	313.0	288.14
October	151.7	126.2	126.2	340.7	314.5	283.18
November	152.8	127.4	126.7	341.9	316.1	288.10
December	155.1	131.7	127.3	342.8	318.5	298.50
<b>1984</b>						
January	152.7	133.6	128.1	342.6	319.8	295.75
February		134.1	128.9	344.0	321.4	291.34
March						308.67

\* Not seasonally adjusted.

**Daily Telegraph**

## Jobless rate 'high until 1990'

By **ROLAND GRIBBEN 2**  
Business Correspondent

**UNEMPLOYMENT** will continue at high levels for the rest of the decade, said a paper presented by Mr King, Employment Secretary, to a meeting of the National Economic Development Council yesterday.

The meeting was held despite the continued boycott by the Trades Union Congress, and the organisation is intended to carry on at least until September before any decision is made on its future.

The paper showed that the labour force would grow by only 458,000 over the five years to 1989. The growth in service industry jobs is forecast to outnumber the increase in manufacturing.

More jobs are predicted for women than men but the numbers of self-employed will rise and further cuts in the hours of work are expected, largely because of longer holidays.

### Rise in workforce

The paper estimates that the labour force will rise from 26,444,000 this year to 26,902,000 by the end of the decade. Over this period the population over 16 is forecast to increase from 43,300,000 to just over 44 million.

Mr John Cassells, director-general of the National Economic Development Office, the body which serves the council, said the outlook for employment looked "particularly poor."

He said that a reduction in overtime could create the equivalent of 500,000 jobs and he expressed concern that most

of the service jobs would emerge in the South East and create further regional imbalances.

But Mr Lawson, Chancellor, who gave an audio visual display of the Budget to the council, maintained that increases in productivity and competitiveness would encourage job creation.

Sir Terence Beckett, director-general of the Confederation of British Industry, questioned whether the working week would continue to shorten.

He said that different patterns of work are emerging and this would mean greater job flexibility.

Mr Lawson gained all-round praise for his Budget package although the CBI urged that the ending of capital allowances for investment should be phased over a longer period.

**THE GUARDIAN**

## Jobless 'will stay at 3 million'

By **Michael Smith**,  
Industrial Editor

The Employment Secretary, Mr Tom King, has conceded that unemployment will probably remain at high levels until well into the 1990s. Forecasts prepared by Mr King's Employment Department imply that the level of jobless people will remain close to the 3 million mark into the next decade.

The DoE forecasts, drawn up for yesterday's meeting of the National Economic Development Council, show that the Government expects the total UK labour force to grow by 729,000 to 26.8 million from 1982 until 1991.

This means that extra jobs would have to be created for these people before any impact was made on current levels of unemployment and the Government's own predictions do not

suggest that economic growth will help create many jobs.

According to the Government's recent green paper on public expenditure, economic growth is expected to grow at 2 1/4 per cent a year until 1989 and between 1 1/2 and 2 per cent until 1994. Most economists believe that annual economic growth of at least 2 per cent is needed to create new jobs.

The DoE assessment coincided with comments by NEDO's director general, Mr John Cassells, that the outlook for employment remained poor despite last month's budget.

In response, the Chancellor, Mr Nigel Lawson, said the number of jobs was going to depend on what happened to productivity, pay and labour unit costs. "Those are things that the Government does not determine," he said. "If we

can get higher productivity increases and keep wage increases down, there is no reason why we shouldn't have more jobs."

However, the continued union boycott of NEDO meant that the TUC was not able to respond to the Government's new assessment. Yesterday's was the second monthly meeting boycotted by the TUC, but NEDO's Mr Cassells said the tripartite organisation could continue meeting until unions discuss the protest at the annual congress in September.

Two print unions, the NGA and Sogat, are the only two unions to carry the movement's boycotting of NEDO to the full by refusing to participate in the organisation's work on "Little Neddy" committees. All other unions are still participating in "Little Neddies."

C  
You'll want to see X1  
Paul

As Chancellor  
12/2

~~JOHN CASSELS~~ INTERVIEW ON NEDC DISCUSSIONS ON BUDGET AND UNEMPLOYMENT

Transcript from: BBC Radio 4, Financial World Tonight, 4 April 1984

INTERVIEWER : (Rodney Smith) .... NEDDY, the National Economic Development Council, met today to discuss both the Budget and unemployment, two key issues. But for the second time the normally tripartate meeting was was boycotted by the TUC. I asked Neddy director general, John Cassels, how long can they go on like this?

CASSELS: Clearly it's possible to go on for some time. There was a good discussion today. It was regretted that the TUC were not there, but it didn't prevent worthwhile discussion. So that the Council can go on meeting for some time without the TUC but, obviously, not forever.

INTERVIEWER : Now you debated the Budget today. One of the things I believe that came out was concerned with our competitiveness and our unit labour costs?

CASSELS Yes, our unit labour costs have been increasing much less than in the past. They went up by 2.7% last year. But the trouble about that is that some of our major competitors actually reduced their labour costs, both Germany and the United States, and Japan held them level. So although we were doing much better compared with our own past performance, we are doing worse in relation to these competitors. And obviously we can't be content until we're doing better than them.

INTERVIEWER: In the papers with the Budget the Chancellor gave no promise of decreasing unemployment; what's the outlook?

CASSELS Well the outlook in the Red Book is that employment will go on increasing, but I think it's implied, not necessarily fast enough to offset the increase in the size of the labour force because the labour force is getting bigger quite fast. If we were more competitive that would lead to higher output and that would enable more jobs to be generated.

INTERVIEWER: What about the regional split, particularly in concerning the services?

CASSELS. Most of the new jobs seem to be in services, or that's where employment's

increasing. And yet there's plenty of evidence that services employment is bouyant in the south east of England, which is, after all, where unemployment tends to be least bad. Therefore if this tendency of increasing employment in services is tending to exaggerate the difference between areas of the country with low unemployment and those with high unemployment. And that's a serious thing.

INTERVIEWER : In the absence of the TUC any thoughts about the reducing the working week to create jos?

CASSELL : I think there's a feeling that the pattern of the hours of work in future may be rather different from the past. My own view is that there's one thing on this that needs a jolly good look, the use of overtime. We use the equivalent of about half a million full time jobs in overtime done by male manual workers and one's bound to ask the question whether that overtime is really necessary, is it really efficient, is it really *productive*, isn't it worth looking into it and seeing if patterns of work might not be chnged so as to have more jobs but less overtime?

You'll want to see 81  
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12/2

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10 DOWNING STREET

From the Private Secretary

Prime Minister

Bilateral with Chancellor

He may raise

- (i) Presidency of the Commission - do we throw our weight quickly behind D'Arignon?
- (ii) He may express second thoughts about the idea of a seminar on expenditure priorities
- (iii) ~~the~~ Possibly Wythel Farm where there is a last minute bid from RT2 and others which is higher than the Dorset consortium.

You could raise

- (i) Recent exchange rate movements. Is the Chancellor concerned about the recent slide.
- (ii) Unitary tax. How does the Chancellor expect this to be resolved? What will his meeting with Regan on 12-13 April achieve?

AT 3/4



PRIME MINISTER

Bilateral with the Chancellor

There are no substantive issues. The Chancellor will want to discuss the handling of Cabinet.

- (i) There is the order in which you invite interventions. You are aware that Mr. Tebbit will not be available to provide support though, in fact, his letter - see Cabinet folder - was less helpful than it might have been. The answer to his concern about "nailing colours to the mast" is that the Chancellor is seeking agreement to ~~an redemption~~ <sup>an assumption</sup>, not a policy decision.
- (ii) You will want to discuss the terms in which the Cabinet discussion is relayed to the wider world. I attach a note from Bernard with some suggestions.
- (iii) It has been the practice to invite Terry Burns to the pre-Budget Cabinet discussion. (He has also attended the economic discussion in July.) Agree he be invited again?

AT

Yes not

ANDREW TURNBULL

8 February, 1984



**10 DOWNING STREET**

PRIME MINISTER

CABINET - BUDGET

The media are aware that tomorrow  
The Cabinet will have its usual  
pre-Budget tour of the economy.

It would be sensible to be able  
to confirm this afterwards in  
something like the following  
terms:

"Today the Cabinet had an X hours  
discussion of the economic  
background to the Budget on the  
basis of papers presented by  
the Treasury.

"(It was agreed that a Green Paper  
on public expenditure and taxation  
in the longer term should be  
published on [Budget Day, March  
13])

Content?

B Ingham  
8.2.84

PRIME MINISTER

Bilateral with the Chancellor

The subjects which could be raised are:

(i) The Budget. Attached is a note by one of the Special Advisers in the Treasury of the Chancellor's remarks at the Backbench Trade and Industry Committee. Although it claims that the Chancellor made no comment on what might be in the budget it seems clear that the Chancellor allowed himself to be drawn into discussion. You might want to caution him against trailing too much of the budget in advance, particularly the good bits.

✓ (ii) Competition policy. Having considering Sir Robert Armstrong's arguments you now wish to proceed with the original proposal which Mr. Tebbit favours of having a separate Sub-Committee of E(S) on competition policy. You thought, however, that it might be better for the Chancellor rather than Mr. Tebbit to be in the chair. Before a minute is sent to colleagues you might want to clear this with the Chancellor.

✓ (iii) Salaries for the Chairmen of CEGB and the Electricity Council. Mr. Walker has re-submitted his proposal for raising their salaries to £64,000 a year. Earlier the Chancellor had objected that these were too high and had made a counter-proposal of £61,000 a year. You queried whether it was right to pay the two Chairmen more-or-less the same since you thought Walter Marshall was the more able. Mr. Walker had, however, argued in favour of paying the same salary to both. You might want to concert a response with the Chancellor.

✓ (iv) Withdrawal of ½p coin. The Chancellor proposes to announce this as soon as possible. There do not appear to be any political objections to this but you might want to confirm that the Chancellor has taken soundings on this.

✓ (v) Treasury Ministers and Lloyds. Sir Robert Armstrong has not yet replied but I believe that he is content with the

/ revised

revised Treasury formulation but is considering whether it really is advisable to consult as opposed to inform Lloyds.

AT

25 January 1984

cc BT  
RE

CHANCELLOR AT BACKBENCH TRADE AND INDUSTRY COMMITTEE

Note for No 10

The Chancellor of course made no comment on what might be in the Budget, and did not respond to specific suggestions made to him.

2. He said that as he saw things at present there would be no scope for net tax reductions. Indeed the figures suggested, if anything, a need for a small net tax increase, though he hoped that that might not prove necessary.

[This reflects public pronouncements at the time of the Autumn Statement].

Note: The Treasury does not yet have the forecasts on which the Budget judgement is based.

3. His comments on the PSBR were confined to parrying suggestions that it could be allowed to rise without risk to interest rates.

4. Asked about thresholds he agreed that when there was room for manoeuvre on personal taxation, thresholds would have priority. [This echoes previous pledges made by Treasury Ministers]. His remarks bore no relation to this budget.

5. On public expenditure, the Chancellor said that the Prime Minister had been absolutely right to avoid giving Brian Walden a pledge to reduce it below planned figures. Parts of public expenditure were rising and reductions elsewhere would have to be found to keep spending level in real terms.

6. The Chancellor did not use the phrase quoted in the FT:

"What I am able to give away with one hand I will have to take back with the other".

He said that while he believed the Budget was likely to be PSBR neutral or slightly worse, he nevertheless expected to be able to make certain adjustments that could be beneficial to the economy.

BILATERAL WITH THE CHANCELLOR

The subjects you could raise with the Chancellor are:

(i) Tax and Expenditure in the Longer Term

You have both undergone heavyweight interrogation on television on this issue. In addition, the Chancellor has discussed at the Treasury's annual gathering at Chevening the shape of the paper on long term public expenditure and tax which he will put to the Economic Cabinet in February. I understand that, unlike the previous Treasury paper which sought to build up a picture of the longer term by aggregating separate Departmental programmes, this one will look at tax and public expenditure in a more aggregative way. It will probably set an objective, e.g. returning non-North Sea taxes to their 1979 level, and then examine what is implied for public expenditure on different growth assumptions. You could discuss with him how much the strategy of holding public expenditure constant in a growing economy will achieve by the end of the Parliament.

(ii) Budgetary Prospects

The Chevening gathering will also have taken a first look at the budgetary prospects, even though the new forecast is not yet available. You could invite the Chancellor to give you a preliminary report, though he may feel that he needs longer to consider this.

(iii) Privatisation Review

The Chancellor has ~~sent~~ the enclosed report which he will be circulating shortly to E(A). (For the purposes of this meeting you probably need only

to read the minute and the paper and not the annexes). The Chancellor will be able to give you a report on how well this exercise is going.

(iv) Competition Policy

Earlier in the day you will be having a *meeting* with Mr. Tebbit at which the idea of establishing a systematic approach to competition issues will be discussed. You could put to the Chancellor the specific suggestion of an E(CP), modelled on the privatisation exercise.

AT

17 January 1984

Bilateral with the Chancellor

The following subjects may be raised:-

(i) Lord Cockfield's study of the tax law. The Chancellor will want to talk to you about the need to integrate the work which Lord Cockfield is doing with his Budget work. He is worried about possible overlaps and conflicts of priorities. The Chancellor is likely to suggest ways of integrating Lord Cockfield into the team of Budget Ministers.

(ii) Monetary targets.

Enclosed in the folder is the paper which the Chancellor promised at his bilateral before Christmas. This sets out the various options for the number of target ranges and the choice of aggregates. The Chancellor will be able to give you some of the background to the discussions with the Bank of England, explaining why it has so far not been possible to agree on a particular combination. My preference is also for Option 3 provided MO is smoothed by taking daily or weekly averages. This Option produces one major broad and one major narrow aggregate each backed by a supplementary aggregate.

(iii) You may like to raise again your concern about the growth of the monetary aggregates which was particularly rapid in Banking December - see attached report.

(iv) Exchange rates.

You could ask the Chancellor for his views on recent developments in the foreign exchange markets. The dollar has continued to show tremendous strength, though this has not had adverse effects on domestic interest rates or domestic markets. Indeed, both gilts and equities have continued to improve.



(v) Pay.

The Chancellor will be chairing a meeting of E(PSP) on Thursday. You might like to look at the summary on the front of the latest monitoring report. This indicates that though settlements may be decelerating, the improvement is very small, as is the sample on which it is based. Despite this, earnings appear to be accelerating. You could ask the Chancellor whether he is satisfied with developments on the pay front, and could commission from him a report on the discussions at E(PSP).

←

*Mark Car*

ff. AT

9 January, 1984.

EXB  
PRIME MINISTER

Bilateral with the Chancellor

The Chancellor wishes to discuss the following subjects:

- (i) Treasury Ministers' membership at Lloyds - you have already seen Sir Robert Armstrong's minutes on this.
- (ii) The Chancellor of the Duchy's work programme on the review and simplification of tax - I believe the Chancellor wishes to allocate this work to the Financial Secretary, who deals with all other Inland Revenue matters, rather than the Economic Secretary, as you had suggested at the meeting last week.
- (iii) Court of the Bank of England - the Chancellor will report on the further thought he has given to names and the discussion he has had with the Governor.
- (iv) Bank taxation - he is likely to take your mind on a proposal to allow banks to offer a composite rate in the way that building societies do now.

AT

ANDREW TURNBULL

21 December, 1983

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor is now coming to see you at 1700 hours tomorrow. The main subject will be electricity prices - Mr. Walker's Cabinet paper is attached.

When I commissioned this paper I asked the Department of Energy to cover:

- (i) where the savings are coming from;
- (ii) whether the prices proposed are consistent with economic pricing;
- (iii) what the balance between industrial and domestic prices would be.

The paper provides some material on all three but it is pretty thin.

On (i), apart from an assurance that accountancy fiddles are not being used, all we have is the Electricity Council's word.

On (ii), the answer is vague but it is probably the case that economic pricing is not sufficiently precise to choose between a price rise of 0 and 3 per cent.

On (iii), the answer given is that industry will be worse than households in 1984/5, offsetting the converse in 1983/4 (not very convincing).

The Chancellor's attitude is likely to be that the savings are not well enough founded and that out of prudence, and in order to avoid the risk of a sharp rise later on, a small increase between 0 and 3 per cent should be sought. He may also feel that it would be damaging for the Electricity Council to be seen to out-face the Cabinet.

/At the last

CONFIDENTIAL

- 2 -

At the last bilateral you suggested that the correct response was for coal prices to be raised. The Treasury have prepared a note which argues that coal is currently correctly priced in relation to imports. This means that the Coal Board is shown as making losses rather than having losses disguised through higher selling prices. I agree with the Treasury advice.

Other possible subjects:-

- (i) Exchange rate and interest rates.  
Is the Chancellor concerned about recent developments?
  
- (ii) The Bank Court.  
Is the Chancellor any nearer finding some one who will keep the Bank in line on monetary policy?

AS

13 December 1983

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

He may raise:

- (i) How to resolve the electricity prices issue. He has written to Peter Walker asking him to substantiate the Electricity Council's claim that the EFL can be achieved with little or no price rise. One way forward would be to get Peter Walker to reply in the next few days and that this should be taken at Cabinet next week. It ought to come back to Cabinet because the information on which MISC 99 based its recommendation appears to have changed;
- (ii) How to pick up the pieces after Athens, in particular how to get the Delors proposal back on to the table after Mitterrand's apparent denial of it;
- 
- (iii) He might raise the question of appointments to the Court, though this is unlikely as he will be talking to the Governor about it on Friday. The Chancellor is aware that you want someone who will keep the Bank in line on monetary policy. If the Chancellor does not raise this, I recommend that you do not either.

You might raise the two points in John Redwood's note, see attached.

- (i) How to start identifying those areas of public expenditure which will provide the savings in next year's survey.

/ (ii)

- (ii) Whether the stance of fiscal and monetary policy is currently tight, loose or about right. The regular IMF mission is here now examining precisely this question.

AT

7 December 1983



10 DOWNING STREET

Prime Minister ②

To note. I interpret JR's first suggestion not as a wish to reopen the 1983 PES Survey, but as the call to start work identifying the options which will provide the savings which will inevitably be needed in 1984's Survey.

On the state of the economy and the tightness or otherwise of policy, a discussion with the Chancellor would be useful.

Yes These two items for a bilateral?

Chancellor has also attempted to clarify capital / current debate in his speech - see attached.

AT  
28/11

PRIME MINISTER

THE STATE OF THE ECONOMY

Since the recession hit bottom in the second quarter of 1981, there has been a strong recovery in many areas. It has been led by buoyant consumer spending, with total consumers' expenditure likely to be up 3.5 per cent in 1983 following growth of 1.3 per cent in 1982. This year is likely to see 14 per cent growth in the sales of durable goods, and 20 per cent growth in cars and motor cycles. Housing activity and the sales of furniture, clothing and footwear have also been growing rapidly.

The current debate about how the recovery can be sustained is common at this stage of the cycle. It would be fatal to take any action which added to demand from Government sources or by monetary stimulus at this juncture. Such action would increase the chances of requiring heavy restraint next year. The worry at the moment should not be about the economy and its recovery running out of steam, but about overheating in certain sectors that are responding well.

Companies are already reporting shortages of skilled labour in some areas. Whilst much industrial capacity lies unutilised, in those areas where the shifting patterns of demand are having their biggest impact, there are shortages of capacity. The falling savings ratio, growing consumer spending, the upturn in general investment, and the continued high level of government spending all point to the need for caution rather than for expansion.

Why are our opponents arguing for an increase in general demand?

The Labour Party, the CBI, NIESR, NEDO and others all draw on the same common fear which emanates from the poor performance of basic manufacturing industry in the UK. The inability of the car industry to meet the demand in the best ever vehicle year is a symbol of the conflict. The deficit on trade in motor vehicles has surged in the first 9 months of 1983 by 168 per cent, from £751 million to £2,010 million. Nothing would be gained by pumping even more money in the system to enable people to buy yet more cars, other than some further increase in imports. Our message to manufacturing industry must be that the demand is there, and it is up to them to produce the right goods at the right price to satisfy it.

We have  
previously  
had this  
argument



Will the rate of growth in consumer expenditure tail off next year?

The savings ratio has fallen to 8.5 per cent this year, compared with almost 11 per cent last year. Some think this is now far too low, and implies that consumers will have to stop borrowing. Messels have recently argued that consumer borrowing has been rising because wealth has increased. The substantial rise in house prices in the last 2 years has meant that the consumer can borrow more money without worsening the relationship between his total borrowings and his total assets. In addition, much of the new borrowing has gone towards the purchase of assets which will have some second-hand value. Messels overstate their case: it would be difficult for there to be a good market in second-hand videos of sufficient size to make people regard their video as they do their savings deposit - as a liquid asset. Nonetheless, there is some truth in their case.

The prospects for the pay round in 1983/4 also imply continued consumer spending. There is little prospect of wage settlements falling below the 5-6 per cent range. This implies that average earnings growth will remain around 8 per cent in 1984, as the year will still see some increase in activity and a satisfactory background for bonus payments and overtime. This will be ahead of the rate of price increase, and will therefore mean that consumers' real incomes will carry on rising next year. At the same time, the level of unemployment will tail off and so consumers will be less nervous about losing their jobs. All this points to further buoyancy in retail spending, and we would expect an extremely good Christmas this year for most shopkeepers.

Are we spending enough on capital account?

Total capital expenditure rose by 5.8 per cent in real terms in 1982, and is set for further modest growth in 1983. It is rising in both the public and the private sectors this year. The nationalised industries are spending more, housebuilding will be up by at least 10 per cent in real terms, and in every area of the private sector, apart from manufacturing, increasing investment is the order of the day.

It is important that we begin to win the argument about the virtues and vices of capital expenditure. Not all capital expenditure is a good. Capital expenditure may be undertaken for one of three reasons:

- (a) For growth. There is no point in spending money on building new schools or additional electricity generating capacity when school rolls are falling and when we already have 30 per cent more power capacity than we need on average.
- (b) To improve efficiency. This type of expenditure is already under way on a large scale throughout the private, industrial and service sectors. More could be done in the public sector, particularly in automating offices.
- (c) For replacement. The Social Democrats have begun to move their position and to accept that not all capital expenditure is a good thing. They are left with attacking the Government on the grounds that it is not replacing the sewers. The whole system is not as bad as a few pieces under the most heavily trafficked streets of Manchester would imply. New technology may also come to our rescue in cheapening repairs. It is true that there are some other sections of the public infrastructure that are tatty and need better maintenance or replacement. We are already tackling the difficult problems of refurbishing and maintaining the ageing motorway network, whilst at the same time trying belatedly to complete it.

Chancellor  
also

Peter Rees has voiced some interesting arguments analysing in more detail our capital spending activities. It is also important to win the general argument that not all capital expenditure is a good thing, and that in those areas where it is a good thing, this Government is making steps to improve our programme.

#### The Public Sector Borrowing Requirement and the Government's Fiscal Stance

The Chancellor has fought long and hard to come up with a reasonable settlement for public spending next year. However, the outturn is still a little disappointing for the first year of a Government which wishes to embark on a major programme of tax reductions.

The £8,500 million PSBR for 1984-5 is not the full story. It is struck after crediting £1,900 million of asset sales which are an alternative method of financing a deficit. Part of the action taken to curb spending entails additional sales of council houses. £730 million has been slashed off the programme for public

corporations. Past experience indicates that public corporations usually come back during the financial year at an inconvenient time seeking more money. Next year is likely to see problems in the basic industrial businesses controlled by the DTI which could well blow the public expenditure target off course.

Finally, we have to remember that we have now sold over £6,000 million of indexed gilts. In the early years, the interest service costs on these are artificially depressed, and this would account for another £400 million plus of public spending if we had issued conventional debt instead of index-linked debt.

The facts underline the need to look at certain of the large programmes like the programme on industrial and nationalised industries support, with a view to improving our controls and taking some of the painful decisions that need to be taken to arrest and reverse the spending in those programmes. They also underline the need for the Government this year to press ahead with its funding programme as monetary policy is at the top end of the 7-11 per cent target range against the background of 5 per cent inflation. This is generous, and the results can be seen in asset markets and in the buoyancy of consumer spending.

Conclusion

Action is needed in two areas. Firstly, we need to return to the attack on public spending as we cannot rest contented with the settlement we have reached so far. You could review with the Chancellor and Chief Secretary the measures they are taking to gain greater discipline over public spending and to identify more targets for genuine cuts. Secondly, we need to be careful in the present conduct of our monetary policy as the dangers are on the side of undue laxity. It is better to tighten a little now than to have to tighten in a year's time against a more explosive background.

*Should not*

JOHN REDWOOD

*Andrew - How far has the 1985 study of the future go. (Highly confidential - only ask Divisional private office or the Home's private office)*

[Mr. Lawson]

and since then it has been falling steadily year by year. The main reason why it increased was that the economy was affected by the world recession.

We in this country are not alone in that perception. The world recovery now under way is built not on some artificial expansion of demand but on a strategy of monetary and fiscal discipline endorsed at successive summits at Ottawa, Versailles and Williamsburg. There is a strategic consensus throughout the industrialised world on what has to be done, a consensus which even embraces Socialist Governments in Paris and Rome. It has helped to reduce inflation in the major countries to its lowest rate for more than a decade and has laid firm foundations for economic recovery. Only the British Labour party cannot accept the logic of the policies or commend their success. Evidently the world is out of step with the Labour party.

The need for firm monetary and fiscal policies applies equally to the developing countries, which have been especially hard hit in recent years by the combination of high interest rates, depressed commodity prices and more costly oil imports. Firm adjustment programmes supported by the International Monetary Fund are crucial. I particularly welcome the long-awaited decision of the United States Congress to support the increase in IMF quotas. I hope that the Administration will be no less successful in securing support from Congress for measures to reduce the Federal Budget deficit, because a fall in dollar interest rates would be the single most significant boost to recovery in the developing and industrial countries alike.

I have outlined our policy on the overall level of spending. Many of my right hon. and hon. Friends in particular are anxious about the balance between capital and current expenditure in the public sector. Gross fixed investment in the public sector, as it is defined in the national accounts, fell under Labour between 1974 and 1979 from 6.5 per cent. of total national output to 4.4 per cent. It fell further until mid-1981 to about 3.4 per cent., but has been broadly stable since then.

The amount of capital expenditure within the public expenditure White Paper planning total, which is the usual basis on which this argument is conducted, provides a poor guide to the impact of the public sector on this country's capital goods industry. For example, the White Paper figure for capital spending amounts to only a fraction of the total public sector capital spending. It does not, for example, include the capital spending of the nationalised industries, which is running at about £7 billion in the current year, which is broadly the same as the 1979-80 level in real terms.

Furthermore, all these capital spending figures are expressed net of asset sales. Sales of public sector housing amounting to over £2 billion last year have to be added back to the totals. The existing convention leads to the absurdity that the more successful the Government are in pushing forward their privatisation programme, the lower the public capital spending figures appear. The figures are also further distorted by the somewhat eccentric treatment of defence in the official statistics. By international convention, virtually all defence spending is classified as current; even expenditure on new barracks or a new service hospital. More importantly, a fleet support vessel in one berth for the Navy counts as current expenditure while its neighbour built for BP scores as capital expenditure.

With the defence equipment programme running at about £7 billion, much of which is capital spending, it makes a big difference to the figures and, because defence spending has been growing as a proportion of public expenditure, it makes a difference to the trend. If we consider these figures outside the straitjacket of the misleading White Paper definition of capital spending, we find that between 1978-79 and 1982-83 total public sector capital spending, including nationalised industries' investment, rose by 38 per cent. from just over £12 billion to £17 billion.

If we adjust the 1982-83 figures to take account of special sales of assets and council house sales, that figure rises to nearly £20 billion or twice the White Paper figure for the earlier year. The figure would be still higher if some credit were taken for defence capital spending. In other words, taking defence equipment as capital expenditure, total public sector capital expenditure in real terms has been broadly stable since 1978-79. As I told my right hon. Friend the Member for Guildford (Mr. Howell) last Thursday, I hope to improve the clarity with which these matters are presented in the next public expenditure White Paper.

Mr. Hal Miller (Bromsgrove): On the subject of capital expenditure, will my right hon. Friend accept that, for example, local authority road programmes rarely meet planning targets and that local authority borrowing for capital expenditure since the introduction of the GRE penalties has dropped from £2.287 billion to £7 million? Widespread anxiety is felt that the necessary capital expenditure on infrastructure is not being undertaken.

Mr. Lawson: It is true that over the years local authorities have regrettably shown a tendency to overspend on their current account and underspend on capital account. The responsibility for that lies with the local authorities.

In any event, what matters most is investment as a whole—private as well as public sector. The autumn statement forecast is for fixed investment rising by 4 per cent. next year against a rate of growth of up to 3 per cent. in the economy as a whole.

Mr. Terence Higgins (Worthing): My right hon. Friend is making an important distinction within the public sector between capital formation as regards defence expenditure and other public sector investment. Does he agree that, in terms of the country's productive capacity, it is only public sector investment outside the defence sphere that increases our capacity to produce? That is not true of capital formation in defence industries.

Mr. Lawson: I have the greatest respect for my right hon. Friend, but I am afraid there is absolutely no distinction between a hospital built by the private sector for the defence services and one built for civilian use. It is precisely the same. Conventional treatment in the public sector White Paper is totally different.

I come to another issue which has aroused a fair amount of comment—the Government's programme of asset sales. The privatisation programme is designed to improve efficiency and to bring about greater competition, to the benefit of the customer and the nation. It reduces the Government's need to borrow, but that is not the programme's principal aim although the beneficial effect on the gilts market is welcome.

PRIME MINISTER

Bilateral with Chancellor

The Chancellor will want to set out his views on the kind of deal on the Community budget which could be agreed at Athens - see attached letter. *Flag A*

His priority is to get a good deal on the safety-net. If this were secured the Chancellor would be prepared to concede an increase in own resources and a less than water-tight control on agricultural expenditure. By contrast, if the offer on the safety-net is not satisfactory he would not settle, even if offered an apparently sound mechanism for controlling CAP expenditure. He does not trust such a mechanism and would not accept it without a good safety-net to fall back on. He feels that there may be no harm in waiting as the tide is flowing in the UK's favour, e.g. the recent change in French attitudes.

He will also want to talk about attribution and non-additionality. You already have the papers on this.

He will want to discuss next steps on energy prices. - *Flag B*  
He will shortly be writing to Peter Walker and the letter may be available before the meeting. This is likely to say:-

- His letter is attached to the policy unit note on electricity prices.*
- i) The issue <sup>has</sup> ~~is~~ to be taken back to Cabinet.
  - ii) The Electricity Council proposals need to be examined carefully to ensure that there is no slight of hand e.g. by running down coal stocks, and that the estimating assumptions are sensible.
  - iii) That a further look is needed at the distribution between domestic and industrial prices which, as proposed, could be perverse.
- AT*

PRIME MINISTER

Bilateral with the Chancellor

The Chancellor will want to concentrate on public expenditure. The main issues are:-

- i) Outstanding questions on individual programmes.
- ii) Bridging the gap on the totals.
- iii) Announcing the outcome.

These issues are covered in full in the Cabinet Office brief.

Since the brief was prepared the Chancellor has had a meeting with Mr. Buchanan-Smith. The latter reported that the Electricity and Gas Boards were resisting the price proposals in the MISC 99 package. Sir Denis Rooke will only accept 5 per cent if he is given a financial target for the next two years. He is hoping to close off options on increases in gas prices. The Electricity Boards argue that the 3 per cent increases would cause them to exceed their financial targets.

*in attached envelope.*

The Chancellor is still considering what approach to take at the meeting and a minute will come over later tonight. He may advise that Energy Ministers should make a further effort to persuade the industries or he may take up an offer from Department of Energy to deliver the public expenditure savings by other means.

Other issues are:-

- i) NIC. The Chancellor is likely to recommend no change in rates, a maximum rise in the upper earnings limit and a cut in the Treasury contribution of 2 per cent.

/ii)

- ii) After his presentation to the Cabinet on bridging the gap the Chancellor will go on to discuss the Industry Act forecast and the negative fiscal adjustment. You will want to go over with him in advance.
- iii) EC net contribution. You said you were not happy with the Chancellor's proposal to use the conventional assumptions. You suggested using the uncorrected figures. The Chancellor is likely to say that this would show the EC contribution £700m. higher. This would raise the programme total. This could only be prevented from raising the programme total if the contingency reserve were reduced by a corresponding amount.
- iv) RSG. I minuted you earlier on Patrick Jenkin's wish to reopen the hold-back positions in the RSG settlement. The Chancellor will argue that the tough hold-back provision was a quid pro quo for a high rate of grant and that it is wrong to modify one element of the package. The Chancellor has considered your suggestion that hold-back should not apply where spending is below GRE. He feels this is tantamount to an increase in targets for many authorities and will cause expenditure to rise.

*Inty Clark  
pp A. Turnbull.*

9 November 1983

PRIME MINISTER

MEETING WITH THE CHANCELLOR

LSd

The two main subjects are likely to be public expenditure and NIC. I will try to find out during the day how the score-card on public expenditure looks after MISC 99. Decisions may be needed on how to handle a short-fall if it arises, and whether a further meeting between you and Mr. Heseltine is needed or desirable. You may also want to discuss the problem of student awards with him.

←

On NIC, the Chancellor has been reflecting following your conversation last week and he will want to up-date you on his thinking.

If there is time, you might discuss Ferdy's proposal for a policy White Paper - a copy of his note which the Chancellor has seen is attached. I believe the Chancellor has reservations, in particular the danger of it looking like a "hidden manifesto" if it contains new proposals and the danger of it becoming a boring catalogue if it merely repeats known proposals. He is considering an alternative approach under which key Ministers would be encouraged to make important speeches, extracts of which could be gathered together and issued as a Party document ahead of the Conservative Council meeting.

E)

AT

2 November 1983



CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are due to see the Chancellor tomorrow at 1745.  
There are two subjects he is likely to raise.

Handling of Public Expenditure Survey: Timing of Autumn Statement

I attach a copy of the schedule of meetings for MISC 99. There has been one change - the Foreign Secretary is meeting the Chief Secretary and the Lord President in a trilateral rather than in a full meeting of the group. The Cabinet Office are now scheduling 10 November as the date of the Cabinet meeting to take the next discussion of public expenditure. The last bilateral is defence on 31 October, leaving time for the Lord President to write up his report and for possible intervention by yourself to resolve outstanding issues.

There are difficulties with 10 November. Sir Geoffrey Howe will be attending the Special Council in Athens. Assuming he had settled by then, he would have been an ally in the discussion. Mr. Jopling is also supposed to be there though he could be told to attend the Cabinet if he wishes to defend his programme. The Chancellor was also invited but is prepared to send a deputy in order to attend Cabinet.

The main difficulty is Mr. Walker's trip to China. He leaves on 2 November and is scheduled to return on 11 November. One possibility is that he could have a meeting with you after his MISC 99 appearance on 27 October but before his departure. Alternatively, if he has still not settled he could be asked to come back a day early.

The main issue remains defence. MISC 99 is unlikely to settle this and you will need to consider whether to see Mr. Heseltine yourself or whether to allow him to go to the full Cabinet.

/National Insurance Contributions

CONFIDENTIAL

National Insurance Contributions

The issue is whether an increase should be announced in the Autumn Statement. Under existing legislation, an increase of a quarter per cent on both employees' and employers' contributions can be implemented. Combined with raising the thresholds this would yield £400 million.

The case for an increase is that the Autumn Statement is likely to show a negative fiscal adjustment, i.e. that taxes need to be raised in order to achieve the PSBR in 1984-5 which was set out in the Budget - £8 billion or 2½% of GDP.

The negative fiscal adjustment could be £1 billion or more, though this may be reduced as the forecast is refined. If NIC were raised it might be possible to show that no fiscal adjustment was needed at all.

The case against an NIC increase is that the National Insurance Fund is currently in surplus; it would take some of the gloss off the Autumn Statement where the Government expects to be able to present a very satisfactory outcome on public expenditure; and it would reverse the trend of reducing employers' NIC/NIS costs. To raise only the employees' contributions would yield £200 million which might not be enough to eliminate the negative fiscal adjustment.

W The Chancellor has yet to make up his mind on this and will want to explore the pros and cons with you.

AT

PRIME MINISTER

Treasury Private Office have not notified me of any subjects the Chancellor wishes to raise at the bilateral.

You might raise

(i) Public Expenditure.  
Does Chancellor have any advice he wants to give on handling of Thursday's Cabinet? Chief Secretary's minute is attached.

(ii) Mansion House speech.  
Chancellor could give you a preview. (Main item of novelty likely to be greater emphasis on monetary base rather than M1 as the narrow aggregate to focus on. It would have a different target range from £M3. This is not a step towards monetary base control which involves direct control on supply of monetary base. The base is simply being used as an indicator in interest rate decisions).

AT

AT  
18 October 1983

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I have identified four subjects for your meeting tomorrow evening with the Chancellor:

- (i) The future handling of the public expenditure bilaterals. The Chief Secretary has reported on the progress he has made in the bilaterals and has suggested ways of handling the outstanding issues, principally on defence and social security. Flag A
- (ii) The Chancellor put to you a draft minute to send to colleagues on handling the debate on public expenditure in the longer term. You commented that you liked the substance of the minute but were reluctant to circulate it. You will want therefore to discuss future tactics. (Mr. Scholar has already put to you the speaking note at Annex B for your approval). Flag B
- (iii) The Policy Unit have suggested raising the future of NEDO with the Chancellor. With Mr. Mount's agreement, I have sent a copy of the Policy Unit note to the Chancellor on a personal basis. Flag C
- (iv) The Chancellor wrote to you on 19 September proposing the phasing out of the £1 note and the ½p coin. You may want to clear this with him. Flag D

AT

4 October 1983

