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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

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