

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.

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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 ^{*}(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