

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



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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

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