

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 10 JANUARY

There is a fairly full agenda for tomorrow's meeting.

1. Markets/Economic Indicators. You may like to have your usual stocktaking on the markets. This week things have been calm. Next week we will be moving into the busy period of the month of new figures with December retail sales, unemployment and the RPI; but we have no feel at the moment for what these indicators will show. (The earlier expectation was for little change in the monthly RPI figure.) Today's Evening Report is in Divider I.

2. Civil List. You saw the papers before Christmas, and you now need to agree with the Chancellor a position to put to the Palace. The relevant papers are in Divider 2.

3. Pay. We do not yet have full information on the key figures emerging from the Review Body Reports. But Robin Butler will be getting a briefing on Friday of this week, at which I will be present, and I will put details in the weekend box. This suggests it would be best for you to defer a first exchange with the Chancellor about Review Body handling until next week's bilateral on 17 January. But meantime you may like to glance at the note from Robin's office (in Divider 3) summarising the modest success that Robin and Peter Middleton have had in squeezing down the TSRB recommendations.
You will, however, want to discuss with the Chancellor the minute he has sent in this evening on the pay of senior Bank of England staff (also in Divider 3). You will, I imagine, be alarmed by what he reports about the increases the Bank envisages. Are you content with his proposal to tell the Governor that anything more than the rate of inflation would be unacceptable to the Government?

4. Charitable Giving. You saw over Christmas the note in Divider 4 from the Policy Unit commending the proposal

backed by Lord Whitelaw for extension of tax relief for charitable giving. You decided the best way to handle this was to raise it orally with the Chancellor. You will want to consider whether to do this tomorrow. My intelligence, which I should be grateful if you did not reveal, is that the Chancellor has independently asked for further work to be done on this sort of possibility in the run-up to the Budget.

5. Yorkshire Bank. You saw over the weekend my note in Divider 5. I am not sure the Chancellor is yet in a position to add much to it, but he may give you a brief report.

6. Mr. Ridley's paper on the ERM. Following your bilateral with Mr. Ridley yesterday, you decided to mention this exercise orally to the Chancellor, and possibly to hand over to him a copy of the paper. As agreed, I have not mentioned this to the Chancellor's office.
Two copies of the paper are in Divider 6. I have, however, been reflecting on whether there is much to be gained by seeking to find a further use for the paper. You had in mind the possibility of a Central Office pamphlet, designed to set out some of the key facts. But might not the effect of this be to re-open an issue which has been successfully played down following the Madrid Formula and the new Chancellor's appointment? My impression, confirmed by a brief chat I had with him after yesterday's bilateral, is that Mr. Ridley would be more than happy just to let matters rest and for no further action to be taken with his paper.

Rec.

PG

9 January 1990.

jd a:chancellor