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PRIME MINISTER

SUBJECT: ECOM Pol  
Pub Exp Pt 30

BILATERAL WITH THE CHANCELLOR

(i) Autopsy on 1984 PES and Planning for 1985

Flag A.  
You could raise with the Chancellor whether it would be helpful to hold a meeting during the Christmas Recess to discuss the lessons of 1984 and to identify targets for savings in 1985. The Economist article attached reflects on briefing given by Lord Whitelaw. Other lessons to be learnt from 1984 are:

(a) there is an upward creep in the point at which programmes are settled. This year fewer programmes were settled in bilaterals with the Chief Secretary, more went to MISC 106 which needed nearly thirty meetings and more were referred to you, though in the end only one programme had to go to Cabinet.

(b) the quality of settlements is deteriorating. There are more fudges, more unwarranted optimism and more is taken on account in respect of decisions yet to be taken.

Flag B  
(c) not all the policy reviews in 1984 were set up in time. MISC 100 did a good job in softening the agricultural programme but the reviews on health and social security did not get going until early Summer and eventually they became an obstacle to progress rather than contributing to savings. This indicates urgency in getting any reviews for 1985 going as soon as possible. The attached note by John Redwood identifies some options.

If such a meeting finds favour, you could discuss with

CONFIDENTIAL

the Chancellor when it should be held - Treasury are doing some work of their own on the lessons of 1984 - and who should attend it. Lord Whitelaw should certainly be invited and possibly the other members of MISC 106. It is possible, however, that Lord Whitelaw may wish to say some things to you privately, particularly about the Chief Secretary's performance in leaving such a large number of programmes to be resolved by MISC 106.

(ii) Taxation of Pension Funds

You were questioned on this at Conservative Central Office. While you can continue to hold the line, using the defence you deployed against Mr. Kinnock's question on VAT, you might like to ask the Chancellor what options he is considering. A note by John Redwood is attached.

(iii) The Markets

Sterling has weakened in the last two days against both the dollar and European currencies, though it is not clear what lies behind this. So far it has not sent interest rates up again, though it has diminished the likelihood that other banks will follow Barclays cut in base rates of 1/4 per cent.

(iv) Pay Review Bodies

The Chancellor may raise the future of these bodies, though I am not sure what line he is taking.

(v) Mr. Martin Jacomb

The Governor has suggested that Mr. Jacomb should be his nomination for a City honour this year. His original choice was Mr. Mackworth Young who has died. While the nomination could be justified by Mr. Jacomb's record of

CONFIDENTIAL

-3-

services to the City generally - he is Chairman of the Capital Markets Committee and served on the Governor's 'posse' which advised on the structure of self-regulation - there is a danger that an honour now would look like a specific reward for managing the BT flotation. This could give an unhelpful impression.

AT

21 November, 1984

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