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SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are meeting the Chancellor for a bilateral lasting an hour at 1045 hrs on Monday, 16 September. The subjects the Chancellor is likely to raise are as follows:-

Coal

The Chancellor sent you a personal note about the future of the coal industry and the Policy Unit commented. These papers are at Flag A. The Chancellor has not indicated how he thinks these ideas might be pursued. I understand that he is seeking your general views on them to help him in continuing discussions with Mr. Walker. But clearly if some are to be pursued, they need to be taken up by yourself with Mr. Walker. The end of the coal strike has created an opportunity. One possibility would be a meeting with him, perhaps on the basis of a Private Secretary letter setting out some of the ideas which you think it would be worth exploring. No-one else would be involved at that stage. Given the need for legislation to secure some of the changes the Chancellor would like to see, there is some urgency.

See my
minute
below for
an
elaboration
of this
approach
W.C.W.
13.9

G5 and \$

The Chancellor will want to discuss further with you the ideas which he mentioned at your meeting first thing last Thursday morning after your return from Scotland.

Running Costs

The Chief Secretary has written to you about proposed new arrangements for the control of Civil Service running costs (Flag B) and the Policy Unit have commented. The Chancellor wishes to take you through some aspects of this which are not brought out in detail in the note. He will in particular want to mention to you how the discussions on the running costs

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figures are likely to go, as well as explain more of the Treasury's thinking.

The key question is probably that discussed in paragraphs 5 and 6 of the minute, namely the effect on expectations of making more realistic provision for pay. It is not easy to decide this without knowing what the figures will be. But the pay factor itself clearly has become much less worthwhile as an influence on pay expectations. Nobody at present expects settlements as low as 3 per cent.

This could usefully lead into a discussion of pay generally. There is the breakdown of the teachers' pay talks, and you will now have seen Mr. Baker's report that the settlement for the local authority manuals may be as high as 8 per cent. What can be done to try to prevent contagion from such high public sector pay awards, if they occur? There are no easy answers.

You might also discuss with the Chancellor the results of your seminar on South Africa.

D. R.

pp (David Norgrove)
13 September, 1985

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