

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

There are three obvious subjects:

- (i) The markets.
- (ii) Teachers' pay. (The Chancellor at MISC 122 mentioned staging of four per cent per annum for four years to make Main's 16 per cent. I simply do not think that is realistic. Part of the Main 16 per cent would be next year's "ordinary" pay increase for teachers, and four per cent a year if it superseded ordinary pay increases would seem derisory. If it did not, it would be too expensive.)
- (iii) The Mansion House speech. I hope to be able to let you have the latest version, which will still be scrappy, very early tomorrow. I have discussed with the Chancellor's Private Secretary what it contained in the latest draft which was still being amended heavily at 2130 this evening. It seems innocuous, but apparently the draft includes nothing at all on the EMS. I think this would seem to commentators a striking omission even if the Treasury repeated the standard line when journalists rang them up. I suggest that the speech should include a couple of sentences (spoken through gritted teeth) to say that the EMS of course offers advantages and disadvantages but that the Government considers that the time is not yet ripe to join.

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