

CONFIDENTIAL

22. 5.80

*GP 20 read again before  
1 next week in C/E.*

NOTE FOR RECORD

Copies to The Governor o/r  
Mr Fforde  
Mr Dow  
Mr Blunden  
Mr Page  
Mr Loehnis  
Mr George  
Mr Goodhart  
Mr Sangster  
Mr Walker  
Mr Byatt

*GP 28/5*

NOTE OF MY CONVERSATION WITH MIDDLETON  
WEDNESDAY, 21 MAY

#### Treasury moves

Middleton indicated in strict confidence that the following moves are planned to take place in July. Bridgeman is to move sideways to a post in public expenditure and will be replaced by Nick Monck, moving sideways from dealing with nationalised industries. Monck will himself be replaced by Burgner returning from NEDO. (I did not learn who Bridgeman is replacing and where he is going but it may be Robin Butler.)

Terry Burns has now completed his recommendations for the forecasting machine. These are not thought to involve any significant reduction in total personnel. The main point will be the integration of the financial and the real forecasts. In this context, Middleton said that Riley may move away from Middleton's empire into the forecasters'. But this was particularly uncertain and they would take care not to lose Bridgeman and Riley within a short period of each other.

#### Taxing bank profits

Middleton confirmed what DAW had reported, that Treasury officials were very unenthusiastic about this now that all the work had been done. They had thought that the idea was virtually dead and he was therefore slightly surprised and concerned to have learned that morning that the Chancellor wanted a meeting on it today (22 May).

DAW will be finding out the upshot immediately this has been held in case there may need to be more intervention from here.

#### Public sector pay

Middleton confirmed that Ministers are very exercised about this subject. To the surprise of officials the Chancellor was very firm on the need to retain Clegg and the Pay Research Unit on the grounds that some form of comparability will be needed. I asked whether the Chancellor was not likely to be overruled by his Cabinet colleagues on this issue, but Middleton rather doubted this, saying that the Chancellor's standing was currently very high in the Cabinet.

Middleton confirmed that the ideas which I had heard from Adam Ridley of announcing a low cash limit, probably within the monetary targets, much earlier in the year than hitherto, was running strongly. (I should record that Anthony Rawlinson talking to me a week or two ago gave rather the opposite impression.)

#### Exchange rate

I had asked Couzens in Paris whether he thought the exchange rate was likely to be vulnerable downwards at some point. He had argued fairly strongly that this would not be likely. Asked the same question, Middleton took the opposite view, saying that unless inflation came down much faster than most of us expected, he believed that purchasing power parity would assert itself at sometime either in the context of an apparent abandonment by the Government of its present policies or of success in meeting the monetary targets leading to a fall in interest rates. Both Couzens and Middleton said that Douglas Wass took the view that the exchange rate was likely to remain high. Couzens said that Wass was becoming somewhat attracted to the idea of joining EMS on the grounds that it might help us to hold the exchange rate down.

Cwm

22 May 1980