

*Edm Pd 2*



*Prime Minister*

*R*

*27/2*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

27 February, 1980

*(see also papers below)*

*out*

*Dear Gordon*

MEDIUM TERM STRATEGY

As you will have realised, I was rather dismayed to learn, when we spoke last Friday, that the Bank felt it had been less than fully informed about the development of Treasury Ministers' thinking on the Medium Term Financial Strategy. Since I have been very anxious that the Bank should participate fully in the development of our thinking in this area, I looked again into what had been happening.

As you remarked, you and Douglas Wass have discussed the topic of a medium term plan/strategy on more than one occasion; and you took part in the meeting we had with academic and outside "experts" last October. Thereafter we did not try to make any further serious progress until the discussions about public expenditure were substantially complete, and the February forecast was largely crystallised.

The next round of activity started with the submission I received at that stage in the discussion. I was glad to find that it was shown to the Bank very shortly after I received it; and that the further submission on the basis of which I sent my minute of 20th February to the Prime Minister was again conveyed to your people without any delay. I am sorry, however, that we failed to ensure a Bank presence when I discussed the official Treasury submission with my Ministerial colleagues here.

On the substance of the issue, I appreciate, of course, that the arguments do not all point the same way. Indeed the anxieties you expressed are well represented here in the Treasury. Against these we have to bear in mind that practically all the material we are contemplating

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The Rt. Hon. Gordon Richardson, MBE

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including in a statement of our medium term financial strategy is likely to be extracted from us in the context of the examination of our Medium Term Public Expenditure plans, and that failure to present this information in the context of our strategy will deprive us of the opportunity of demonstrating its consistency with steadily reducing monetary growth over the period. It is my clear view that the advantages of publication definitely outweigh the disadvantages; and the Prime Minister, who initially shared your and my anxieties, has come to the same opinion. For my part I would favour making the best of our various analyses of the medium term prospect, as a means of helping to secure the best outcome we can from our policy of monetary control, to which we both attach such importance.

Because I realise that these issues are central to the Bank's concerns, we must clearly find an opportunity for a further discussion in the next few days when you have recovered your breath following your return from the Middle East. Since we need to include the medium term strategy material - if it is to be published at all - in the Financial Statement and Budget Report, we need to press ahead fairly quickly. However, in order to ensure that I am able to take Bank views fully into account, I have made arrangements for any necessary Cabinet discussion to take place on 13th rather than 6th March.

I am sending a copy of this letter to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

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28 FEB 1980

