

NOTE FOR RECORD

The Governor of the Bank *WR 21/2*

- copy to:*
- Mr. Ffonde.*
 - Mr. McCheson.*
 - Mr. Dow.*
 - Mr. George.*
 - Mr. Walker.*

The Governor's Conversation with Mr. Middleton: 13th February

Middleton said that the Treasury was limbering itself up for the approach to the Budget but was finding the process a little difficult by reason of the style in which the Chancellor and his Ministerial colleagues conducted their business. This was partly because of a sponge-like quality about the Chancellor, who was apt to absorb a quantity of papers and discussion without yielding up much indication of his own reaction to them. Nor was work made easier by having two taxation Ministers who had their own separate approaches to every tax question.

The Treasury were trying to concentrate attention on the principles which should underlie the Budget. Middleton instanced a note of his own on what should be their aims for the company sector. A substantial problem here was how one could help the company sector without inflicting damage on the personal sector.

The new forecasts would become available that day; but they were not likely to be cheerful and Burns certainly did not accept them. They would show an acceptably moderate PSBR, but only at the price of a fall in output of the order of 5%. As Middleton saw it, the pressure of the pursuit of our monetary target was bound to throw up trouble somewhere and the main question for policy was where it should emerge. They were having a special meeting on these aspects the following morning and Middleton would ensure that we saw all the papers as they emerged. The Governor outlined briefly the main thrust he proposed to give to his Bristol speech and Middleton said he accepted fully that we must stick to our targets; the idea sometimes voiced of lowering our sights by 2% was simply not on. He saw the continuation of high interest rates as a consequence of this view and said that, in his belief, Ministers would do what they could on the fiscal side, short

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of going back on the relaxations of personal tax introduced last year. There might be difficulty in maintaining Ministers' resolution with regard to interest rates; but he agreed that there was no real alternative course.

In addition to the Public Expenditure White Paper, there were still thoughts of producing a medium-term plan and Burns was doing some work on this.

Bridgeman was engaged on redrafting of the consultative paper. This would shortly be going to Wass and would be ready for further discussion. The Governor made the point that it would be valuable to bring in John Flemming as well as Goodhart at this next stage. The Governor said that, to his mind, supply constraint must necessarily have its effect by way of the price of money; he thought, however, that the Prime Minister had not yet fully taken this point on board.

Middleton commented finally that the Finance Ministers' meeting had not gone well. The timing of decisions on EEC contributions was unclear, but might well be inconveniently close to the Budget.

See.

19th February 1980.