

SENIOR STAFF IN CONFIDENCE

Original on Envo for H 4
Future Policy towards EEC
Community Budget.

cc to Whitmore

NOTE FOR THE RECORD

The Chancellor of the Exchequer called on the Prime Minister at 0845 hours today. The following are the main points which came up in discussion:

(i) EEC Budget

The Chancellor said that the Lord Privy Seal was establishing a small official group to assist him in developing our negotiating strategy on the EEC Budget issue. Four FCO officials were to be on this group, but only one Treasury official had been invited. While accepting that the FCO had to be in the lead, he felt that the Treasury had a crucial role to play; and therefore Treasury representation on the group should be on a par with the FCO. The Prime Minister agreed that Treasury representation should be stronger, and that - in addition to Sir Ken Couzens - there should be at least two other Treasury representatives. (We have since spoken to Sir Ian Gilmour's Office about this, and he is taking the necessary action.)

(ii) Treasury Appointments

The Chancellor asked the Prime Minister whether she had been able to form a view of Mr. Ryrie when she visited Washington. The Prime Minister replied that she had not been very impressed by him: in particular, she had not found his manner at all easy, and this suggested to her that he would not be very good at managing a major part of the Department. The Chancellor said that he was also having doubts about Mr. Ryrie's succeeding Sir Lawrence Airey. But he had not yet taken a final view, and would come back to the Prime Minister in the New Year.

(iii) Budget Date

The Chancellor said there were two options: either 25 March or 22 April. His own provisional preference was for 25 March mainly because the later date would involve

/ a loss

a loss of about £100 million (assuming the indirect taxes were revalorized). After the late Budget this year, he also did not want a repeat. The Prime Minister said that she agreed.

(iv) Monetary Policy

The Chancellor said that the Treasury were reviewing various aspects of monetary policy, including the Bank's performance in October and also the proposals for Monetary Base Control. He would be letting the Prime Minister have a note fairly soon. Moreover, he had promised a paper on monetary policy to Cabinet.

(ii) Capital Taxation

There is a minute at Page 11 which sets out his provisional proposals. These involve abolishing the investment income surcharge altogether, and significantly reducing the burden of capital gains tax and capital transfer tax. You won't have time to discuss this in detail tomorrow. You might prefer to set up a working party with one or two other Ministers - for example Mr. Holt and Sir Keith Joseph because of their interest in the industrial implications, and perhaps the Home Secretary to provide a political steer. The main issue will be whether the Chancellor can afford the whole package which will cost about £500 million. In the light of this afternoon's discussion on small firms, it might for example be better to spend rather less on CFT and spend £50 million on the small firms "start up" scheme.

(iii) Treasury Arrangements

A meeting has been arranged for Friday morning with [unclear] and others to discuss this. See the Chancellor's [unclear] word. (In Budget) [unclear] Page 2).

20 December 1979