

NOTE FOR THE RECORD

c. Mr. Alexander

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cc (Mason)
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The Chancellor called on the Prime Minister at 0845 this morning. They discussed the following matters:-

- (i) The Chancellor's minute of 24 September about public expenditure on defence in the later years of the PESC period. It was agreed that the Chancellor would reconsider the possible formula which he might put to Mr. Pym and that he would then discuss the matter with Mr. Pym with a view to reaching agreement.

- (ii) Contribution to the EEC Budget. The Prime Minister referred to recent correspondence between Mr. Walker and Mr. Biffen about the projections of the UK's contribution to the EEC in PESC. Mr. Walker had pointed out that the Treasury were assuming that the 1% VAT ceiling would be broken, and that our net contribution would accordingly increase substantially in the years ahead. The Prime Minister said that this point ought to be considered by Treasury Ministers. A more realistic assumption could leave room for a reduction in total public expenditure in the later years, or alternatively it might provide some accommodation for extra spending on defence. In any case, when we were trying to renegotiate our budgetary contribution, it would be wrong to publish a White Paper with figures that effectively implied that the negotiation would be unsuccessful. The Chancellor said that he would look into this.

The Chancellor then said that he was worried about the conclusions of OD the previous day on possible measures to hold back our contribution. He had since spoken to the Attorney General, who had agreed that there might be some basis within the terms of the Treaty for holding back our contribution. In any case, he felt it was essential that we exercise our room for manoeuvre within the law to the limit. The Prime Minister said that she would want something in writing before agreeing to go beyond the conclusions of OD: she certainly was not willing to go outside the law.

(iii) The Chancellor said that the Governor had put forward various proposals for appointments to the Court of the Bank of England - and he (the Chancellor) would like the Prime Minister's endorsement of them. First, he proposed that Mr. McMahon should succeed Sir Jasper Hollom as Deputy Governor when the latter's term runs out next February. Second, he proposed that Mr. George Blunden should be re-appointed to the Court; and thirdly, that Mr. Page, the Chief Cashier, should be appointed for the first time.

The Prime Minister said that she was unhappy with the proposed appointment of Mr. McMahon - who, as far as she was concerned, did not have sufficient personality or banking flair for the job of Deputy Governor. She would like to see alternative names for this appointment. She was content with the re-appointment of Mr. Blunden, but she had doubts about Mr. Page's appointment. The Chancellor said that he would consider further and let the Prime Minister have a note.

(iv) Rhodesia. The Chancellor said that he had agreed with the Foreign and Commonwealth Secretary that Treasury and FCO officials should do some work on the economic implications of possible outcomes of the Lancaster House talks - for example, compensation which the UK might have to provide to white farmers. The Prime Minister took note.

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25 October 1979