

PRIME MINISTER

(F)

MEETING WITH THE CHANCELLOR AT 1730 ON MONDAY 5 NOVEMBER

The main purpose of this meeting is to reach decisions on the forecast which has to be published by 20 November, and which is needed very soon for the Government Actuary's ^{report}. The assumptions in this report provide the basis for the new contribution tables which have to be prepared and distributed to industry in good time in the New Year, and this in turn requires that the Contributions Order be laid by the end of November.

The main issue for discussion is the RPI forecast. The Chancellor offers the option of 15 per cent or 14 per cent for the 12 months ahead. Although there are risks of credibility in choosing the lower figure, I am sure that on confidence and more general political grounds it would be the right choice. The arguments against going for a lower figure still are:

- (i) It would not be credible against the background of higher energy prices and a worse earnings outcome for 1979 than was predicted earlier. The forecast published at the time of the Budget is at Flag B - this shows an RPI forecast for 1980 of 13½-14 per cent. Phillips and Drew will be publishing their forecast on Monday showing 15 per cent for next year.
- (ii) Any figure lower than 14 per cent will make it hard for Mr. Jenkin to justify to Parliament any increase in the contribution rate. Although the National Insurance Fund is in sizeable surplus at the moment, he will need an increase for it to remain in balance next year (unless we are very lucky on the inflation front).

I understand the Chancellor will also wish to discuss the point which you raised last week - that Cabinet might have an economic strategy discussion before too long. You suggested a session at Chequers after Christmas; the Chancellor, I understand, is /inclined to

inclined to ask for a discussion before Christmas with a view to lining up more of your colleagues behind the strategy - or at any rate, to elicit more explicit support from some of the waverers or from those who say little in Cabinet.

I think the idea of a general discussion is an excellent one, but it obviously needs careful handling if you are to get the right result. One possibility would be for the Chancellor to circulate a paper to an "inner group" - say, Sir Keith Joseph, Mr. Nott, Mr. Whitelaw and possibly Lord Soames (the latter two might be counted upon to raise some of the arguments of those who are less sympathetic to the strategy and this could be useful as a "trial run").

The other question is whether such a discussion should be linked to any particular decision. One major decision which has to be taken in the next few weeks is whether to announce a medium-term financial plan. Putting together a credible plan raises big questions about the consistency of the Government's fiscal and monetary policies, and there might be advantage in securing the explicit support of colleagues for it. On the otherhand, if this issue is to be specifically put to Cabinet, there will be demands that future decisions on monetary matters should go to Cabinet. I am sure that monetary decisions on a month-to-month basis must be taken by the Chancellor, in consultation with you as necessary.

Finally, the Chancellor may raise the question of publicity. I understand he is unhappy with the lack of progress which is being made with the campaigns to influence public attitudes on pay determination, etc. A good deal of work was done on these in the summer, and Ministers were asked to use speaking material provided by the Paymaster General. But not much has come of this in terms of Ministerial speeches. The Chancellor, I know, feels that he is being left to carry too much of the burden and the general "message" is not getting across sufficiently.

T. P. LANKESTER

2 November 1979

cc: Messrs. Wolfson and Ingham