

Not discussed  
to Chancellor.

PRIME MINISTER

Meeting with the Chancellor, Thursday

7 February 1980

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The Chancellor will want to discuss the timing of the announcement of last week's public expenditure decisions. He has sent you a minute on this (Flag A). He favours deferring the announcement of the aggregate cuts until they can be presented in the context of the budget. But he concedes that there are arguments the other way - notably the fact that some parts of the package will have to be announced earlier. In particular, the de-indexing of short-term benefits will have to be announced by 13 March if the timetable for the Social Security Bill is to remain in tact. In view of this, the Chancellor of the Duchy is in favour of an earlier announcement of the total package. Robert Armstrong however agrees with Geoffrey Howe that the announcement should be deferred until later.

The Chancellor and Sir Keith continue to disagree on the "start-up" scheme. You have told colleagues that you want this considered once more in E. The Chancellor - for reasons set out in his minute (Flag B) wants to drop the scheme for this years Finance Bill, and does not want to take it back to E. Sir Keith wants one more try in E (Flag C)

At the end of the day, I fear you will have to back the Chancellor on this one; but I don't think you can really go back on your decision to take this to E once more. For all the difficulties of going ahead with the scheme, there are important political and economic benefits to be won from it. You might ask the Chancellor to think about these once again in the run up to E.

If there is time, you might discuss the latest monetary developments. The combination of substantial growth in the money supply in January, continuing <sup>high</sup> very short-term interest rates, and an excessively strong Pound are, of course, <sup>very</sup> worrying. What is the Chancellor's prognosis? The Chancellor's prime objective in the budget must surely be to get interest rates down.

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