



Prima Minister Eca Pd 2  
 The Treasury on re-writing 5  
 their paper to take account of  
 some of the, and the  
 Governor's, worries. You will  
 need to discuss again

with the Chancellor and  
 No. 3 of 4 copies possibly to the  
 two.

CHANCELLOR OF THE EXCHEQUER

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MEDIUM TERM FINANCIAL STRATEGY

Over the past few weeks I have made known to you my reservations about the publication of a set of economic statistics covering the expected life span of this Parliament. As you know I have privately assured you that I would accept the collective judgement on this matter, and I have not committed views in writing lest there was any danger - however remote - of our differences of opinion becoming known and possibly magnified.

I did, however, explain that I would send you a short minute following the meeting held on March 3 to consider a Medium Term Financial Strategy.

It seems to me there are at least five reasons which militate against the publication of these statistics as a Medium Term Financial Strategy.

1. The demand for such a Financial Strategy comes from journalists, academics and commentators rather than from those in the commercial world.
2. If the statistics are to generate confidence they will have to become forecasts backed by government authority rather than illustrative tables.
3. If the Strategy statistics are to establish the credibility of a monetary policy over several years they will assume some mechanistic relationship between public sector borrowing requirement, monetary aggregates, and recorded inflation. I do not believe such a relationship can be thus demonstrated.

4. Indeed the omission of recorded inflation (the RPI) from the proposed Financial Strategy underlines the difficulties I have observed in point 3 above; particularly as the price index is the statistic of supreme political importance which justifies the policy.
  
5. Our monetary policy is still at the stage of apprenticeship. The Financial Strategy, on the other hand, will suggest a certainty about pace and direction that we do not possess, either technically or politically.

I could elaborate my reservations at greater length - but the above points serve to illustrate my main anxieties.

I am sending copies of this minute to the Prime Minister and to Sir Douglas Wass only.

W. J. B.

JOHN BIFFEN  
4 March 1980