

CONFIDENTIAL

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Policy 2
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PRIME MINISTER

Medium term financial strategy

The Governor rang me this morning to say that he had just received a copy of the Chancellor's minute on the above subject which you discussed yesterday morning. He said:

- (i) He had not been consulted on the document;
- (ii) If he had, he would have expressed serious misgivings. In particular, he feels the quantification of monetary targets so far ahead is likely to put the Government in an undesirable strait-jacket as far as interest rates and fiscal policy are concerned, and he questions the realism of some of the figures. He said he was also concerned about the implications for unemployment which are likely to follow from the slow rate of GDP growth which is assumed.

I said I was very surprised that he had not been consulted on such a vital issue relating to monetary policy. In fact, I had automatically assumed that the Bank had been closely involved in the exercise. I also said that no irrevocable decision had been taken, and that there was still an opportunity to express his views.

He said that he would let the Treasury have written comments early next week, and I will ensure that we get a copy as well. I also said that, if he really was unhappy with the proposals, you would almost certainly want to hear them at first hand. (We could no doubt fit this in towards the end of next week). In the meantime, I have told the Treasury that they should not circulate their paper to Cabinet until we have the Governor's views.

/ I have asked

CONFIDENTIAL

CONFIDENTIAL

- 2 -

I have asked the Treasury why the Governor was not consulted. They admit that he did not see a copy of the final document before it came to you, but they claim his officials have been consulted frequently over the last few months on the whole question of a medium term plan. Douglas Wass had also discussed it at various times with Gordon Richardson. They were aware of the Bank's general misgivings, and as far as they were concerned, these were reflected in the minute. Nonetheless, it does seem pretty inexcusable that there was no consultation on the final document. Robert Armstrong will take this up with Douglas Wass.

7.

22 February 1980

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