

~~Mr. Alexander~~ . *Paul*

The PM agreed (on (i)) that the Chancellor should meet Mr. Walker.

~~PRIME MINISTER~~

Meeting with the Chancellor: 1500, 17 December

I understand the Chancellor will raise the following:-

- (i) CAP. The Chancellor has heard on the European grapevine that Mr. Walker has been going around the capitals saying that the UK would be content with farm price increases next year of up to 12%. The Chancellor is, rightly, most concerned about this - if true. It has been made quite clear to Mr. Walker that we should be going for something in single figures; and the so-called "intermediate" approach which the Chancellor recently put forward, and which you endorsed, would involve an increase of 5 to 5½%. (Michael's contacts in the Foreign Office confirm that Mr. Walker has been reported to be canvassing a figure of 12%, though they don't have any evidence in writing.)
- (ii) Enterprise Zone for the Shotton area. You have asked that this should be considered urgently. The Chancellor's initial reaction is to oppose it strongly on the grounds that it would dilute the EZ concept.

The Chancellor is meeting the nationalised industries chairmen on Thursday. It would be helpful if you could stiffen the Chancellor up for this meeting: in particular, he needs to emphasise that the Government expects their industries to achieve settlements in line with the pay assumptions in their EFLS, and that we do not want higher settlements financed by higher charges this year.

I have arranged for Brian Griffiths to come in with Peter Middleton next Monday to discuss monetary policy. I don't know whether you would like the Chancellor to come too. He might find it educative.

/ You

You have the latest unemployment figures - in the hot box. I suspect they will continue getting worse for some months. But as the Financial Times Editorial today argued, there are some signs that we are nearing the bottom of the recession. One interesting point which is emerging is that the recession has been largely caused by industry's massive de-stocking: final demand in terms of consumer expenditure and exports has held up pretty well, and investment (a relatively small component of GDP) is not down all that much. This could be taken to suggest that the recession has been caused to a considerable extent by industry taking an excessively pessimistic view of what was going to happen to final expenditure - which has not been borne out by the facts. You might like to have a word with the Chancellor about all this, and the prospects for the upturn.

Another question to be discussed, if there is time, is what we say publicly between now and the Budget on the monetary strategy. Fortunately, the Opposition have not really got onto this; but there is at present rather a big hiatus between what is happening on the monetary front, and what the strategy says ought to be happening. It may be that we simply have to blur our response until decisions have been taken on the new monetary target, etc.

16 December, 1980.