

## CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Sir Douglas Wass  
Mr Burns  
Sir Kenneth Couzens  
Mr Middleton  
Mr Britton  
Mr Riley  
Mr Turnbull  
Mrs Lomax

## MLR IN THE BUDGET

I agree with the reasoning in Mr Middleton's minute of Friday. I arrive at the conclusion that 2% is probably the right figure by the following rather similar line of reasoning.

2. This is going to be a pretty harsh Budget. You are taking money away from persons on a considerable scale. There is a danger that to many people this will seem like a lot of pointless misery. It can be justified to a considerable extent by the argument of the two imbalances which is presented in the Speech but that points to taking money away from persons and giving it to companies. You are in fact taking benefit in the form of a lower PSBR, so that the benefits to industry come in the form of lower interest rates. I think the whole acceptability of the package and the policy will be much reduced if this is simply a prospect for the future. There should be some tangible benefit apparently flowing from the harsh measures you are taking.

3. This seems to me to point to a fairly substantial reduction in interest rates. In arriving at a figure, however, the risks have to be assessed and there is no doubt that there is some risk in moving short-term rates down by 2% at this time, but I think Mr Middleton's minute indicates that the risks are not too great to be taken.

4. Of course something depends also on market expectations. The argument above might suggest a cut of even more than 2%, but that would surprise the markets and create uncertainty about the direction of the next move.

WSR.

W S RYRIE  
2nd March 1981

359/81

29/3