

Econ Pol
Strategy

PRIME MINISTER

Meeting with the Chancellor: 0930 on Thursday 7 May

You will wish to go over with the Chancellor the handling in Cabinet of his paper on public expenditure.

You have already agreed that colleagues should be told that there will be a macro-economic discussion on 4 June. You have still not decided, however, whether they should also be told that there will be several such discussions throughout the year. As you will recall, the Chancellor would be in favour of this; and the Policy Unit have given the idea their support (flag A). Robert Armstrong's earlier advice on all this is at flag B.

I believe the Chancellor will want to take you briefly over the banking figures which were published today - implying sterling M3 growth of about 1.8 per cent. (See Treasury note at flag C.) He has had a meeting today in the Treasury to discuss the interest rate prospects. There are some, including Terry Burns, who have argued that it would be possible to reduce MLR by a further one percentage point soon. The Chancellor is as yet undecided - though I think his gut feeling is that it would be unwise when the money supply figures are looking so high, when American interest rates are so high and when sterling has been under some downward pressure. The opposite view is that the underlying monetary figures are in reasonably good shape, and that if we look only at the crude money supply figures (ie taking into account the effects of the Civil Service dispute) it may not be possible to make any reduction for some time.

TL

6 May 1981