

CONFIDENTIAL

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) Monetary Policy

You have seen notes by John Redwood and by Greenwells. Alan Walters has prepared a commentary which you will have discussed with him earlier in the afternoon. Alan is not too fussed about the rapid growth of sterling M3 - M0 is growing slowly and high real interest rates provide an assurance that inflation will not be allowed to run away. He is concerned, however, that the monetary control arrangements have not worked as they were expected to do.

(ii) Long-Term Unemployment

There is a meeting next week to consider various measures to tackle the problem of long-term unemployment, such as Work Fare, Benefit Plus, a modified community programme, and a grant or tax credit to the long-term unemployed to encourage them to seek work. Some parts of Government may see this meeting as an opportunity to bring forward plans to spend more on reducing the unemployment figures. My understanding is that you are more interested in schemes which secure some contribution to society from those receiving unemployment benefit. The Chancellor is likely to share this view. This indicates that CP should not be further expanded until the problem of the link with union rates has been tackled.

(iii) Benefit Reviews

You may want to compare notes on how the announcement has gone so far. The Chancellor may share the frustration of the Labour Party about the absence of figures.

AT

4 June 1985

VC3AEC