

EL3CDT

PRIME MINISTER

## TOMORROW MORNING'S MEETINGS

There are three separate subjects for discussion with the Chancellor tomorrow which I suggest are taken in the following order:

1. Interest rates

The Chancellor would like to take this item first; depending on the outcome, he will want to leave the meeting for a few minutes to debrief his officials. He will come alone.

The papers are in Folder 1. They are the money figures which you saw last night, and David's note that you saw at the weekend. You already have the current account figures and the market report.

Neither the prospective trade figures, nor current market conditions argue strongly for an increase in interest rates. I expect the Chancellor to rest his case for an increase on the money numbers which certainly give cause for concern. But the main question here is: in what way would a half per cent increase affect monetary conditions? Certainly not in any fundamental way, but the Chancellor will argue that such an increase would be a signal to the markets that the authorities were not willing to sit back, and might avoid a bigger increase later on. All very iffy.

2. Succession of Mr. Butler

Papers are in Folder 2. The Chancellor will be accompanied by Sir Peter Middleton. Sir Robert Armstrong will be present.

3. Organisation at the Centre

Papers are in Folder 3. Robin Butler will join the discussion.

It would not be fair to think that Robert Armstrong is trying to bounce this through. His point, with which I sympathise, is that an increasing number of people in the MPO are aware that something is afoot. Uncertainty is spreading and this is not good for morale. There must be a high risk of comment in the newspapers. So if the MPO is to be absorbed into the Treasury and the Cabinet Office, the sooner the announcement the better.

I think that the arrangements Robert Armstrong describes in his long minute are sensible. The draft press notice is purely factual. You will see that it refers to the establishment of a Management Advisory Board. I believe it right to couple the two announcements. There will many in the Service who, though they may not have much time for the MPO, would be fearful if they thought that the Treasury would be exercising a predominant influence in its management. The Management Advisory Board is a useful balance to the Treasury, a point with which I think the Treasury would agree. So the acceptability of the change to the Service as a whole, and I would guess to the TCSC (for what that is worth) would be increased by coupling the two announcements together.

*To come tomorrow*  
Mr. Luce does not think it necessary to come to the meeting. But he has asked that your attention should be drawn to the minute at Flag A in Folder 3 which he sent you before the Election. Robert Armstrong comments on Mr. Luce's point at Flag B.

At Flag C there is a note from Robert Armstrong reporting that the Treasury are happy that Miss Mueller, at present Second Permanent Secretary in charge of MPO, should join them to take charge of MPO functions transferred to them.

Robert Armstrong would be grateful for a word after all this.

N.C.U.

NIGEL WICKS

5 August 1987