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PRIME MINISTER

MARKETS

Shortly after we returned from lunch at the Bank today, the Chancellor asked me to have a brief word with him.

His main points were:

- (i) He was distressed that some of today's press had interpreted his speech to the IEA as a declaration of independence. This had certainly not been his intention and he had deliberately sought to steer clear of areas of controversy;
- (ii) He was doing all he could through the Treasury Press Office to play things down for the weekend press.

In discussion the main points I put to him were:

- (i) For his part, Bernard was certainly seeking to calm down the press comment;
- (ii) I took the opportunity to stress that you were keen to see a further early increase in interest rates. He immediately responded that this would be very difficult while the exchange rate was as strong as it currently is, and that the best thing would be to wait to see how the markets responded to the trade figures on Wednesday. I countered that I thought you would prefer to see a further increase in interest rates before the trade figures, notwithstanding the possibility that this might lead to some temporary strengthening of the exchange rate.



It was left that we would obviously need to see how things stood on Monday. But my impression is that if you want early action next week, you will need to take the initiative.

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PRCG.

Paul Gray

22 July 1988

P.S. Following your recent request the Treasury have now started copying to me the weekly MO figures. The first such is attached. It confirms the Chancellor's view that the peak has now passed - but I see no case for complacency.

PRCG

22/7





GA

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22 July

Paul Gray Esq  
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*Dear Paul*

**CHANCELLOR'S IEA SPEECH**

... I attach a copy of the line the Treasury Press Office is taking on today's press stories about his IEA lecture.

I am copying this to Bernard Ingham.

*Yours  
Alex*

**A C S ALLAN**  
Principal Private Secretary



"Declaration of independence"?

Not at all. Chancellor was giving IEA lecture on "the State and the Market", which had been fixed up and advertised months ago. It would have extraordinary if he had not mentioned the foreign exchange markets. What he said was entirely consistent with the policy both he and the Prime Minister have expounded.

Background

- No response at all to Walters
- Studiously avoided public debate either in press or at MPs' meeting
- Nothing new/quotable/provocative in IEA.