

Subject

Economic Policy  
c. Mr. Whitmore  
Mr. Alexander

APPOINTMENTS IN CONFIDENCE

The Chancellor of the Exchequer called on the Prime Minister at 0900 hours this morning. The following are the points which arose during their discussion.

- i. The Chancellor reported briefly on the IMF/World Bank meeting in Belgrade. He said that the meeting revealed a growing recognition amongst Finance Ministers that inflation was the number one enemy. For example, the Canadians, the Australians and the New Zealanders had come out strongly; and so also had some Finance Ministers from LDCs (such as Indonesia and Singapore). There thus appeared to be growing international support for the Government's own strategy; and Secretary Volcker appeared to have gone back to the USA with a strengthened resolve to beat inflation in the USA. It seemed likely that the US interest rates would accordingly be raised further.
- ii. The Prime Minister said that she intended to say in her Luxembourg speech that the UK would not contribute more than one per cent of its VAT receipts to the Community Budget without significant reforms. The Chancellor did not dissent from this approach.
- iii. The Chancellor said that, in relation to the CAP, the UK should try to ensure that in future Agricultural Ministers were to be accompanied at crucial Agricultural Council meetings either by Finance Ministers or by Treasury officials. At present, Agricultural Ministers had it too much their own way, without considering the implications of their proposals for the non-agricultural community.
- iv. The Chancellor said that he was very concerned at the prospect that public sector corporations would be putting in demands for additional funding: for example, the

/Post Office,



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Post Office, British Steel and British Leyland.  
The Prime Minister asked for a note on this  
(which I have commissioned from the Treasury).

- v. They discussed membership of the NEDC. My letter of today's date to the Treasury records their conclusions.
- vi. The Chancellor said that he had not been able to carry forward his ideas for a new Government Director of BP. He had so far been unable to discuss the matter with Lord Barber. On further reflection, he was inclined to think that Lord Barber might more usefully be asked to undertake the study of Commonwealth assistance which had been decided upon at Lusaka. The Prime Minister said that she disagreed and that Lord Barber would be far more usefull as a BP Director. The Chancellor accordingly agreed to sound out Lord Barber (and also Sir David Steel) on the possibility of Lord Barber becoming the Government Director.
- (2) vii. The Chancellor said that he would be putting proposals to the Prime Minister shortly on a further exchange control package; he was also discussing within the Treasury the idea of medium term monetary targets, and would be reporting back to the Prime Minister on that too.
- viii. The Chancellor raised the question of the Inland Revenue Chairmanship, and the replacement for Sir Fred Atkinson as Chief Economic Adviser at the Treasury. The Prime Minister said that she would like to defer discussion of this until the meeting with Sir Ian Bancroft on Monday. However, the Chancellor did indicate that his favoured candidate for Chief Economic Adviser was Mr. Terry Burns.

/The Prime Minister



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The Prime Minister said that she was of course prepared to consider his name but she asked the Chancellor to bear in mind the fact that Burns had been responsible for the recent article which had suggested that the Government could countenance a significantly higher PSBR than £8 billion.

4 October 1979