

PRIME MINISTER

You may care to see (attached) John Nott's letter, sent to me, to the Independent about its coverage of economic policy; and my reply.

Peter Jenkins, Independent, rang me today to say Bevins' account of your CCO press conference was altogether mischievous and the conference, which he attended, quite simply did not bear the interpretation he had put upon it.

Peter Torday, the economic writer, was then asked to provide some economic ballast and came up with Alan Walters' lunches in which he is alleged to have said or assented to two things:

- (i) interest rates were high enough for the purpose of getting inflation under control; and
- (ii) the implication of that was that he would like the pound to find its own level.

This was added to Bevins' story.

Peter Jenkins is now exploring what can be done (to get rid of or control) about Bevins. He said that Bevins, by virtue of being outside the Lobby, had the luxury of escaping the discipline of checking with me.

I said that the consequence was that he was frequently exposed for what he was - an inaccurate, prejudiced and malicious operator.

I attach the offending cutting.



BERNARD INGHAM
June 16, 1989

THE INDEPENDENT

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Thatcher adds to economic confusion

THE PRIME Minister yesterday added to the confusion over the direction of government economic policy with a strong defence of Sir Alan Walters, her personal economic adviser, and a direct repudiation of the truce which her Chancellor had offered on membership of the exchange rate mechanism of the European Monetary System.

The pound had a calmer day, helped by light support from the Bank of England, and closed little changed at DM3.08 and \$1.5147. Later in New York it fell to \$1.5115. But there were widespread fears that base rates, now 14 per cent, may rise again if tomorrow's inflation statistics and a poor Conservative result in today's European elections inflict further damage on confidence.

By Peter Torday
and Anthony Bevins

Nevertheless, the City regards the biggest threat to sterling as being the deep-seated and unresolved differences between Margaret Thatcher and Nigel Lawson over monetary policy.

It emerged yesterday that Sir Alan had recently attended several private City lunches at which he explained in detail the differences over exchange rate policy between the Chancellor and the Prime Minister. Sir Alan is said to have expressed less-than-wholehearted support for Mr Lawson during those conversations — something which has not helped confidence in the pound.

A growing band of economists

PM praises Chancellor's rival and repudiates truce on exchange rates

fear that Mrs Thatcher, taking her cue from Sir Alan, does not share Mr Lawson's commitment to a strong pound and believes that policy should aim to control the growth of the narrow money supply. A firm pound is at the heart of the Chancellor's anti-inflation strategy, so the fact that sterling's sharp decline has not been firmly resisted has shaken confidence.

The erosion of support for the pound may persist until it is plain that Mr Lawson has gained the

upper hand, or a clear alternative to the exchange rate emerges as the anchor in the fight against inflation.

Bill Martin, the chief economist of the stockbroker UBS-Phillips and Drew, said: "Sir Alan's views on benign neglect [of sterling] may be reasonable, but they have a corrosive influence; it's a continuing drain on sentiment."

He added: "The more Mrs Thatcher protests her support for sterling the more the interna-

tional investor wants to pick up and run."

Keith Skeoch, chief economist of the stockbroker James Capel, said: "We have always given them the benefit of the doubt, believing they would maintain a firm exchange rate. What worries the City and the foreign exchange market is: Who is to be believed, the Chancellor or Sir Alan?" He warned that as long as policy remained unclear, the Government risked having to raise rates, whatever its attitude towards the pound.

Despite the spreading gloom, some economists thought the gulf had been bridged and were optimistic about sterling.

City, Westminster and Whitehall perceptions of the rift between Mrs Thatcher and Mr Law-

son were strengthened yesterday when the Prime Minister twice refused to take an opportunity to kill speculation about Mr Lawson's future in a reshuffle — while defending Sir Alan as an alternative source of advice.

The distinct difference between those two responses was underlined by Mrs Thatcher's rejection of Mr Lawson's peace offering on the exchange rate mechanism of the European Monetary System.

In evidence to a Commons committee on Monday, the Chancellor conceded that it would be reasonable to stall discussion on membership until after France, West Germany and Italy had removed exchange controls next year; a shift on his previously-known views. But when Mrs Thatcher was yesterday asked whether

it would be easier to join the mechanism once those controls had been lifted, she told a London press conference that there were "many more controls in Europe".

She explained: "You've mentioned one, but there are many, many others which inhibit capital movements, and a number of other controls. You have to look at everything. It is not the only one which has to be looked at when you're considering whether the time is right to join."

Mrs Thatcher was also asked why she needed Sir Alan's advice, if she backed her Chancellor. She said it helped her break out of "a prison of Civil Service advice".

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Telephone: 01-588 2721

21 Moorfields
London EC2P 2HT

Bernard Ingham

With the compliments
of
John Holt.

One layman's view
of the wretched newspapers
and the even more
wretched lobby!

Telephone: 01-588 2721

21 Moorfields
London EC2P 2HT

The Editor
The Independent
40 City Road
LONDON
EC1Y 2DB

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15 June 1989

Dear Editor

As an enthusiastic convert and a daily reader of The Independent I am finding your headline journalism in the political field increasingly obnoxious. I did not switch from Murdoch's propaganda tract (The Times) to read concocted political gossip dressed up as serious comment; this is in the tradition of the lobby which you claim to abhor.

I happen to agree with Mrs Thatcher's approach on exchange rate policy whilst at the same time being mystified as to how the Government's cause can be furthered by the presence of Mr Walters at No.10.

However, your headline today "Thatcher adds to economic confusion", together with the opening paragraph (on page 1), seems a complete distortion of what the Prime Minister actually said and meant (reported on page 7) in answer to a series of provocative questions at the press conference. The headline is simply an attempt to generate further political mischief between the Prime Minister and the Chancellor, serving only to damage further an already fragile financial situation.

Your political commentators in the recent past appear to have been promoting what may be significant differences of

view on exchange rate/monetary policy as nothing more than a clash between an authoritarian Prime Minister and a stubborn Chancellor. This theme is becoming obsessive in The Independent. Even if this is an opinion you wish to promote can you please stop inventing stories by distorting Ministers' words when all this does is to drag your newspaper down into the political gutter, more commonly known as the lobby.

I do not wish this letter to be published but, hopefully, it will be seen by Mr Whittam-Smith and Mr Anthony Bevins.

Yours Sincerely,
Solun North



10 DOWNING STREET
LONDON SW1A 2AA

From the Press Secretary

16.6.89

Dear John,

Thank you for your note and attachment
yesterday.

There is nothing wrong with British journalism
that a reversion for fact, fairness and balance
would not cure.

The Independent consistently exhibits
a reversion for gossip, conspiracy theory and
malice. It is not alone, by any means.

None of this has anything to do with
the hobby system which, as a means of
conveying information by background briefing.

is treated, valued and esteemed the world
over.

The lobby which I mean is not to be all and
end all of the system. Hundreds of lunches,
gatherings, briefings, encounters etc in the
course of any working day are the lobby
system in operation. It oils the wheels of
understanding. It is indispensable to the
workings of a democracy.

I do not intend to be intimidated or
put better by the malicious, the politically
motivated - those who want to sheet me
up - the ignorant or those who fall for
the independent's Propaganda.

The anti-lobby lobby's complaint about
me is that they cannot manipulate me
they never will.

to John Dotti
21 Moorfields
London EC2P 2HT

Jan Samuel
Anna Tom