

Bilateral with the Chancellor

The following subjects may be raised:-

(i) Lord Cockfield's study of the tax law. The Chancellor will want to talk to you about the need to integrate the work which Lord Cockfield is doing with his Budget work. He is worried about possible overlaps and conflicts of priorities. The Chancellor is likely to suggest ways of integrating Lord Cockfield into the team of Budget Ministers.

(ii) Monetary targets. Enclosed in the folder is the paper which the Chancellor promised at his bilateral before Christmas. This sets out the various options for the number of target ranges and the choice of aggregates. The Chancellor will be able to give you some of the background to the discussions with the Bank of England, explaining why it has so far not been possible to agree on a particular combination. My preference is also for Option 3 provided MO is smoothed by taking daily or weekly averages. This Option produces one major broad and one major narrow aggregate each backed by a supplementary aggregate.

(iii) You may like to raise again your concern about the growth of the monetary aggregates which was particularly rapid in Banking December - see attached report.

(iv) Exchange rates.

You could ask the Chancellor for his views on recent developments in the foreign exchange markets. The dollar has continued to show tremendous strength, though this has not had adverse effects on domestic interest rates or domestic markets. Indeed, both gilts and equities have continued to improve.

(v) Pay.

The Chancellor will be chairing a meeting of E(PSP) on Thursday. You might like to look at the summary on the front of the latest monitoring report. This indicates that though settlements may be decelerating, the improvement is very small, as is the sample on which it is based. Despite this, earnings appear to be accelerating. You could ask the Chancellor whether he is satisfied with developments on the pay front, and could commission from him a report on the discussions at E(PSP).

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9 January, 1984.