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NOTE FOR THE RECORD

The Chancellor, who was attending the informal eco-fin meeting in Spain, rang the Prime Minister at around 12.30 on 20 May to discuss the press reports of the Prime Minister's interview the previous day with the BBC World Service.

The Prime Minister said she recognised the Chancellor would be distressed by the reports, as indeed she was herself. But the actual interview did not bear the interpretation the press had given it. She had never said that the Chancellor had been to blame for the pick-up in inflation; indeed if she blamed anyone for it, it was herself.

Continuing she said that, with the benefit of hindsight, when she had been asked whether the Chancellor had been wrong to seek to shadow the Deutschemark, she should have given a direct answer - refuting that suggestion and emphasising her support for the Chancellor. But at the time it had seemed important to give the answer she had done, refuting the report on the radio earlier that morning. The Prime Minister repeated that there was nothing in her remarks to say that she blamed the Chancellor. Indeed, she and the Chancellor stood together on economic policies.

The Chancellor said that, of course, he accepted everything the Prime Minister said. But the press reporting of her interview presented him with the most difficult situation he had yet faced. He was always happy to discuss policy fully with the Prime Minister in private, but it was very difficult if issues between them were brought out in the open. While again stressing he accepted everything the Prime Minister had said, he was not surprised by the interpretation that had been put on the interview by the press and by the Opposition. But his most immediate concern was that action should be taken to correct any misinterpretation in time for the Sunday newspapers.

The Prime Minister repeated her earlier remarks. She said

that, when the Chancellor came to give his press conference later in the day in Spain, she was happy for him to say that they had spoken and for him to emphasise her full support. As regards the Sunday press, she would be content for the No. 10 Press Office to take action to emphasise the key points.

In further discussion it was agreed that they were:

- The policies adopted by the Chancellor were those of the Government and were fully approved and supported by the Prime Minister.
- Those policies had brought great economic success to the UK; rising living standards, high employment etc.
- The present pick-up in inflation was a problem, but the right action had been taken - in full agreement - and would succeed.

The Chancellor repeated his request for the No. 10 Press Office to take positive action with the Sunday press to get this message over, and the Prime Minister and Chancellor asked me to put this into effect.

I then spoke to Bernard Ingham. His judgement was that to approach the Sunday press would be a mistake. During the morning the press had been showing very little interest in the story, and for us now to approach them would have the effect of stoking things up again. But he agreed that, if the press approached us on the story, he would emphasise the three points agreed. I also told him that it was possible the news would come back from Spain that a telephone conversation had taken place.

I then reported this conversation back to the Prime Minister. She accepted Bernard's judgement but asked me to pass out a further message to the party in Spain, explaining the attitude we were taking.

I then spoke to Nigel Wicks in the Chancellor's party and asked him to pass on this message.

At about 1500 Nigel Wicks rang me back to say that the Chancellor was deeply unhappy about the decision not to take positive action to contact the Sunday press. Even if such action had the effect of reviving the story, he would much prefer the record to be put straight and for the Prime Minister's support for him to be made absolutely clear. His concern was that, given the publication deadlines, time was now getting extremely short to influence the Sunday newspapers. I undertook to discuss this further with the Press Office.

As I was unable to contact Bernard Ingham I discussed the latest developments with Terry Perks. He concurred with Bernard's original judgement, and with the view that it was in any event probably now too late to influence the Sundays. But I said to him that, in view of the nature of the earlier conversation between the Prime Minister and the Chancellor and given the Chancellor's continuing unease, I thought he should speak to a selection of the Sunday papers - even if this had no impact on the stories they ran it would enable us to say that we had met the Chancellor's request. Terry Perks agreed to do so.

He rang me back at about 1600 to say he had spoken to the Times, Telegraph and Express. The Times had said that their political writers were not running anything on this story, but the economic staff were. The Telegraph and Express had yet to decide how to handle things. Terry had fed in the three key points to all of them. Terry said that he felt it would be totally counterproductive to approach any of the other papers, and I agreed.

At about 1700 I rang Nigel Wicks in Spain again. He was unavailable, but I left a message for him to the effect that "the action had been taken".

I subsequently reported these later events to the Prime Minister in a telephone call at about 1800.

Paul Gray
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20 May 1989