

ANDREW TURNBULL, AIRBORNE FROM PAUL GRAY, 10 DOWNING STREET

TODAY'S ECONOMIC DEBATE

The opening part of this afternoon's debate followed fairly predictable lines. John Smith made what was in parliamentary terms a witty and reasonably successful opening speech. But it was extremely low on real content. The centre-piece of it was an attempt at continued mischief-making and fun-poking over Alan Walters and alleged divisions within Government. The general drift was that the Prime Minister's plan was to let the Chancellor take the blame for the alleged economic mess and in due course to replace him. Meantime, Alan Walters and Bernard Ingham were being used to undermine his position.

Other points of interest during the speech were:

- Smith was pressed to spell out his conditions for joining the ERM, which he said included going in at the "right" exchange rate. Both the Chancellor and Conservative backbenchers sought to characterise this as a policy of devaluation.
- Smith quoted fairly extensively from Michael Heseltine's speech in Blackpool. This eventually led to exchanges in which Heseltine made three successive but not over-penetrating interventions. Smith won these exchanges on points.
- Smith recast his advocacy of credit controls, partly in terms of possible use of special deposits but mainly in the form of a request to the banks to co-operate in curbing their lending.

The Chancellor made a low key speech which was not particularly successful in parliamentary terms but passed satisfactorily. The content was very familiar and covered similar ground to his Party Conference and Mansion House speeches. In the course of it he repeated the line he took at Treasury Questions last week that Alan Walters' views on the EMS were not the views of the Government.

I gather that, following these opening speeches, the Chancellor has done various TV interviews which are likely to be on the evening news bulletins. I have not yet seen them. But I gather that a lot of the time was taken up with Alan Walters, and at one point the Chancellor said something to the effect that he believed it was a good convention for advisers not to make their views known publicly.

One other media event during the day - which I also did not hear - was that the BBC lunchtime news played a recording they had taken of a telephone call they put through to Alan Walters. This took the form of the BBC man asking Alan for an interview and Alan declining to give it. But the report then went on to add that Alan subsequently made clear that at an earlier stage the Chancellor had also agreed with his (Alan's) views on the EMS. We shall have to see what use is being made of this in this evening's bulletins.

B:ECONOMIC

SECRET

Disk sent to plane 16.45 24/10

3

MR. TURNBULL

MARKET REACTION TO TRADE FIGURES

The pound opened this morning at \$1.5995 and DM 2.956. It lost half a cent and one pfennig after the trade figures came out at 1130 but steadily made up ground during the day to close at \$1.6035 and DM 2.954. It is holding that level currently in New York. I understand from the Treasury that there has been no intervention.

The FT-SE 100 index closed at 2159, 30 points down on the day. Most of this fall occurred after 1430 when Wall Street opened and reflects a weakness in Wall Street rather than reaction to the trade figures here.

Developments expected in discussions on ambulance dispute over the next hour and I will telex these to you at Doha when we have further news.

DM

DOMINIC MORRIS

24.10.89

B:DM (SLH)

SECRET