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bcc: TW(co)
AT

10 DOWNING STREET
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From the Private Secretary

20 October 1989

Dear Alan,

We spoke earlier in the week about your article for the American Economist, and the publicity been given to it by Simon Holberton in the Financial Times. I explained that this was causing major problems here and, given that the story was being picked up by the Opposition, it was likely to feature in exchanges in the Commons.

That is indeed what happened yesterday. I attach extracts from Hansard, from which you will see the issue came up both during Questions to the Chancellor and Prime Minister (for which the Lord President was deputising). That in turn led to a lot of coverage on last night's television and again in this morning's newspapers.

You told me that you had written the article about three years ago and that it had been circulated widely. It is clear from the fact that the Opposition have now laid their hands on the text that copies are freely available, although just how Simon Holberton got hold of his is not clear to me. Having read the article carefully I am puzzled by your comment on when it was written; given the reference to a "continuing boom in 1988" I would have thought the longest ago it could have been written was eighteen months. We have however been taking the line with the press that you wrote the article 'a considerable time ago' and before you returned to the staff at No. 10. I hope that is correct.

As regards the content of the article it is as you say largely biographical. But the Hansard extracts will leave you in no doubt of the use being made of the points at which you strayed into current policy issues. Over the last 24 hours this has caused Ministers considerable political difficulties, which the Prime Minister will also face on her return from Malaysia next week. I hope you will draw the same conclusion as me, namely the need to consider more carefully what material you release into the public domain.

Yours,
Paul
PAUL GRAY

Professor Sir Alan Walters

MR. TURNBULL

ALAN WALTERS AND ERM

As promised here is my letter to Alan. I have also let Robin Butler have a copy.

PAUL GRAY

20 October 1989

C:AT (slh)

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Mr. Gordon Brown: On business investment and the impact on it of high interest rates and exchange rate stability, Sir Alan Walters has said that the European monetary system is half-baked. He said in an article that the arguments for it have never even attained a minimum level of plausibility and that the Prime Minister concurs with his view. In the light of that, will the Chancellor tell us who is now in charge of economic policy in the Government? Is it the Chancellor or Professor Walters who should be giving the Mansion House speech this evening?

Mr. Lawson: I am not sure, Mr. Speaker, what that has to do with the question, but I will gladly answer it. The views which the hon. Gentleman quoted on the EMS from Sir Alan Walters are clearly not the views of the Government. The Government have made their views clear and the Prime Minister has made them clear: we are committed fully to joining the EMS as part of stage one of economic and monetary union. As for investment, which actually is the subject of the question, I am not surprised that the hon. Gentleman shied away from it because unlike the sharp growth in investment that we have had during the period of this Government, during the period of the Labour Government investment did not grow at all.

Mr. Nicholas Brown: Given the Chancellor's earlier answer on EMS, how can Sir Alan Walters claim that the Prime Minister agrees with him and with a wholly different point of view to the view the Chancellor has just stated on behalf of the Government?

Mr. Ryder: The hon. Gentleman obviously has not been listening to the replies that have been given. On several occasions today, and during questions on Tuesday to the Lord President, it was apparent that the Opposition were not listening to the answers. The answer is that the Prime Minister has set out on numerous occasions that Britain will enter the ERM when the conditions set out at Madrid have been met.

Mr. Kinnoch: Now that the Chancellor of the Exchequer has repudiated Sir Alan Walters, who does the right hon. and learned Gentleman expect the Prime Minister to repudiate—her personal adviser or her Chancellor?

Sir Geoffrey Howe: The right hon. Gentleman should know perfectly well that throughout my time as Chancellor of the Exchequer Professor Alan Walters was the Prime Minister's economic adviser and in those circumstances, as today, his advice is one factor taken into account by the Prime Minister and the rest of the Government. The policy of the Government is as stated by people speaking on behalf of the Government. The Prime Minister and the Chancellor of the Exchequer have articulated policy in precisely the same terms and will continue to do so.

Mr. Kinnoch: No answer was the stern reply. *[Interruption.]* I hear what the right hon. and learned Gentleman says. Is he also aware that Sir Alan says that the Prime Minister concurs with his view about British participation in the exchange rate mechanism? Is the right hon. and learned Gentleman saying that Sir Alan is not telling the truth about the Prime Minister's view?

Sir Geoffrey Howe: I am not required to answer for every nuance—*[Interruption.]*—and it would be astonishing if I were. The Prime Minister's view is the one that I reiterated in the House on Tuesday and which my right hon. Friend the Chancellor of the Exchequer reiterated this afternoon. The views set out by the Prime Minister at the conclusion of the Madrid summit are well known to the House.

HANSARD

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Mr. Gordon Brown: On business investment and the impact on it of high interest rates and exchange rate stability, Sir Alan Walters has said that the European monetary system is half-baked. He said in an article that the argument for it have never even attained a minimum level of plausibility and that the Prime Minister concurs with his view. In the light of that, will the Chancellor tell us who is now in charge of economic policy in the Government? Is it the Chancellor or Sir Professor Walters who needs to give the Mansion House speech this evening?

Mr. Lawson: I am not sure Mr. Speaker what that has to do with the question that I am actually answering. The view which the hon. Gentleman expressed on the EMS from Sir Alan Walters are clearly not the views of the Government. The Government have made their view clear and the Prime Minister has made them clear. We committed fully to joining the EMS as part of stage 1 of a single and monetary union. As for investment, which actually is the subject of the question, I am not surprised that the hon. Gentleman should say that because unlike the sharp growth in investment that we have had during the period of this Government, during the period of the Labour Government investment did not grow at all.

Mr. Nicholas Brown: Given the Chancellor's waver answer on EMS, how can Sir Alan Walters claim that the Prime Minister agrees with him? Is it a wobbly independent point of view in the view that the hon. member has just stated on behalf of the Government?

Mr. Ryder: The hon. Gentleman's question has not been related to the replies that have been given. On several occasions today and during the previous debate to the Lord President, it was apparent that the Clarendon were not listening to the answers. It is correct to say that the Prime Minister has agreed to membership of the ERM and that Britain will join the ERM when the conditions set out in Madrid have been met.

Mr. Kinnoch: Now, what the Chancellor of the Exchequer has indicated Sir Alan Walters, who does the right hand and learned Gentleman expect the Prime Minister to designate—her personal adviser or her Chancellor?

Sir Geoffrey Howe: The hon. Gentleman should know perfectly well that Sir Alan Walters is the Chancellor of the Exchequer Professor Alan Walters was the Prime Minister's economic adviser and in those circumstances at that time he was brought into account by the Prime Minister and the rest of the Government. The policy of the Government is not to be decided by people speaking on behalf of the Government. The Prime Minister and the Chancellor of the Exchequer have indicated what the Government's policy is and will continue to be.

Mr. Kinnoch: No wonder was the hon. member surprised to hear what she right hon. and learned Gentleman said. It is well known that Sir Alan says that the Prime Minister concurs with his view about British participation in the exchange rate mechanism. Is the right hon. and learned Gentleman saying that Sir Alan is not doing the truth about the Prime Minister's view?

Sir Geoffrey Howe: I am not required to answer for any other hon. member. I would be astonished if I were the Prime Minister's economic adviser that I appeared in the House in the way that the hon. member has just done. I went to the Chancellor of the Exchequer yesterday afternoon. The hon. member says the Prime Minister at the summit of the Madrid summit are well known to the House.

