



The subjects agreed to have a smaller mtg on this on 4 July

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4 July

PRIME MINISTER

This must be discussed. The first cabinet meeting (on Tuesday) after return 28/7

MORTGAGE RATE

Since we spoke on Sunday evening, I have checked that there is no question of building society interest rates going up in the next few days. The Building Societies Association Policy Committee and Council meet respectively on 12th and 13th July, and they will be considering the issue then. The Joint Advisory Committee between the Building Societies and departments will be meeting on 5th July, and this will enable us to probe their intentions. There will therefore be time for us to consider this with Michael Heseltine when we return from Tokyo.

2. Present indications suggest that the societies will want to raise their share and mortgage rates. The amount will depend very much on the level of short-term market rates then and on the prospect as they then see it. The present share rate grosses up to 11.43 per cent, which is nearly 2½ per cent below the 3 month rates with which they normally compare their position. If they did not raise their share rate, their inflow would probably be about £200 million a month, compared with the £350 million or so they need to sustain their existing lending levels without running down liquidity. While they would probably not seek to bring their rates fully up to current market levels, since there is still limited scope for running down their liquidity, it is likely that they will choose to move the mortgage rate to at least a full point above the present level of 11¼ per cent, and almost certainly more.

← |

13. We might



3. We might be able to persuade the building society leaders to postpone a move until their next meeting in September if we could assert confidently that market rates will have fallen significantly by then. We are not able to do this at present. I would hope that we will be able to have some relaxation of short-term interest rates in the coming months, but cannot be certain of this. We should not reduce MLR until there is clear evidence that bank lending is under control. If we do, we run the risk of having to raise it again later. Also, the scope for a fall in short-term rates is limited. We have set a deliberately tight monetary target; it will not be easy to achieve this with nominal interest rates much below the current rate of inflation (13 per cent). If societies' share rates are too far out of line, they will have to reduce their lending, run down their liquidity (which will prejudice the financing of the PSBR) and be unable to help to finance council house sales. (I know that you would be prepared to see them holding back for the present on this new policy commitment, if that would help hold their rates.)

4. Treasury and DOE officials have already considered possible ways of enabling societies to maintain their lending levels without putting up the mortgage rate. As you know, there are basically two. One is to pay an interest rate subsidy either directly as we did for a few months in 1973 or indirectly by varying the composite rate - this would cost some £25 million per percentage point per month. The other is to advance loans to make good the loss of inflow as the Labour Government did in 1974 - probably £100 or £150 million a month.

5. After re-examining these ideas, I am afraid that I see grave objections to both. They could add an indefinite amount to public expenditure and to the PSBR, since there would be no certainty for how long they would last. They would have an immediate effect on the money supply, at the critical point

/when we



when we need to bring down the rate of growth which we inherited. We have secured considerable credit for our willingness to adopt a tight monetary stance and to take tough measures to secure it. A change of this kind would seriously damage the Government's credibility on that front. In the markets, it would almost certainly lead to other interest rates being forced up against us. Moreover such a change involving public expenditure on this would make it much less easy to resist other claims on the much reduced contingency reserve - if it did not exhaust the reserve itself.

6. I realise that the alternative of allowing building societies to raise their interest rates is unpalatable. That is why it will clearly be important to re-examine the position on our return from Tokyo early next week. But I should not like to leave you with the impression that it will be easy to avoid what must be seen as an inevitable consequence of our general economic strategy in the very difficult circumstances that we have inherited.

7. I am sending copies of this minute to Michael Heseltine and Sir John Hunt.

G.H.

(G.H.)

25 June, 1979



CONFIDENTIAL

Housing
2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

26 June 1979

MBM

R 26/1

Dear Tim

My Secretary of State has seen a copy of your letter of 25 June to Tony Battishill about mortgage rates. He has asked me to say that the Prime Minister can be assured that on her return from Tokyo she will be presented with options necessary to provide a subsidy to the building societies designed to persuade them not to increase their interest rates.

My Secretary of State hopes that the Prime Minister will, however, arrange an early meeting of Ministers to discuss this, as there are important considerations in connection with overall policy, and especially public expenditure, which he believes need to be taken into account before such a decision is taken.

I am sending a copy of this to Tony Battishill, Treasury and to Martin Vile, Cabinet Office.

Yours sincerely

D A Edmonds

D A EDMONDS
Private Secretary

Tim Lankester Esq
10 Downing Street

CONFIDENTIAL

Anthony MJ



FILE

cc DOE
CO

10 DOWNING STREET

From the Private Secretary

~~B/K 26-6-79~~

25 June 1979

Dear Tony,

The Prime Minister was most concerned at reports in the weekend press that mortgage rates may possibly have to go up within a few days, and I understand she spoke with the Chancellor of the Exchequer about this.

The Prime Minister has asked me to say that an increase in the mortgage rate must be avoided - if necessary through a temporary subsidy. She has requested that contingency plans should be made with a view to preventing any rise in the rate - if necessary - to be implemented forthwith. She would like to be assured that such planning is under way before she leaves for Tokyo.

I am sending a copy of this letter to David Edmonds (Department of the Environment) and to Martin Vile (Cabinet Office).

Yours,

T. Battishill

A.M.W. Battishill Esq
HM Treasury

CONFIDENTIAL

Extract from PM television with the Home Secretary

24.6.79

At the end of the conversation, the Prime Minister said that her main worry was the mortgage rate: this must on no account go up - if necessary, it should be subsidised from the contingency reserve. The Prime Minister said that she would like to have a meeting of the "Inner Cabinet" at 1130 on Tuesday, 26 June.

Subject file
Parliament - MP's pay
June 79.

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Over Jeremy

Mr. Justice Cantley's words—WAS a friend. An affectionate one.
● Mr. Peter Bessell—a "humbug"—was another friend. A close one.
And it was the evidence of these friends which put Mr. Thorpe into the dock.
The rumours and allegations about the Scott affair have festered for years. Inquiries in private and inconsistent denials only added to them.
Now the jury, after a public trial, has decided that the criminal allegations were unfounded.
Mr. Thorpe is left as the victim of a scandal which might have been avoided had he been frank from the beginning.

Briefing

...s happening around the world and in Britain

Maggie hints at pay curbs

DEARER home loans and possible wage restraint moved a step closer last night.
Prime Minister Margaret Thatcher warned at the end of the Common Market summit in Strasbourg that Britain's near-record 14 per cent bank lending rate would have to stay for some time.
She also agreed with other EEC leaders that wages should not go up to compensate for higher oil prices.

MARK DOWDNEY and DENNIS NEWSON

prices down

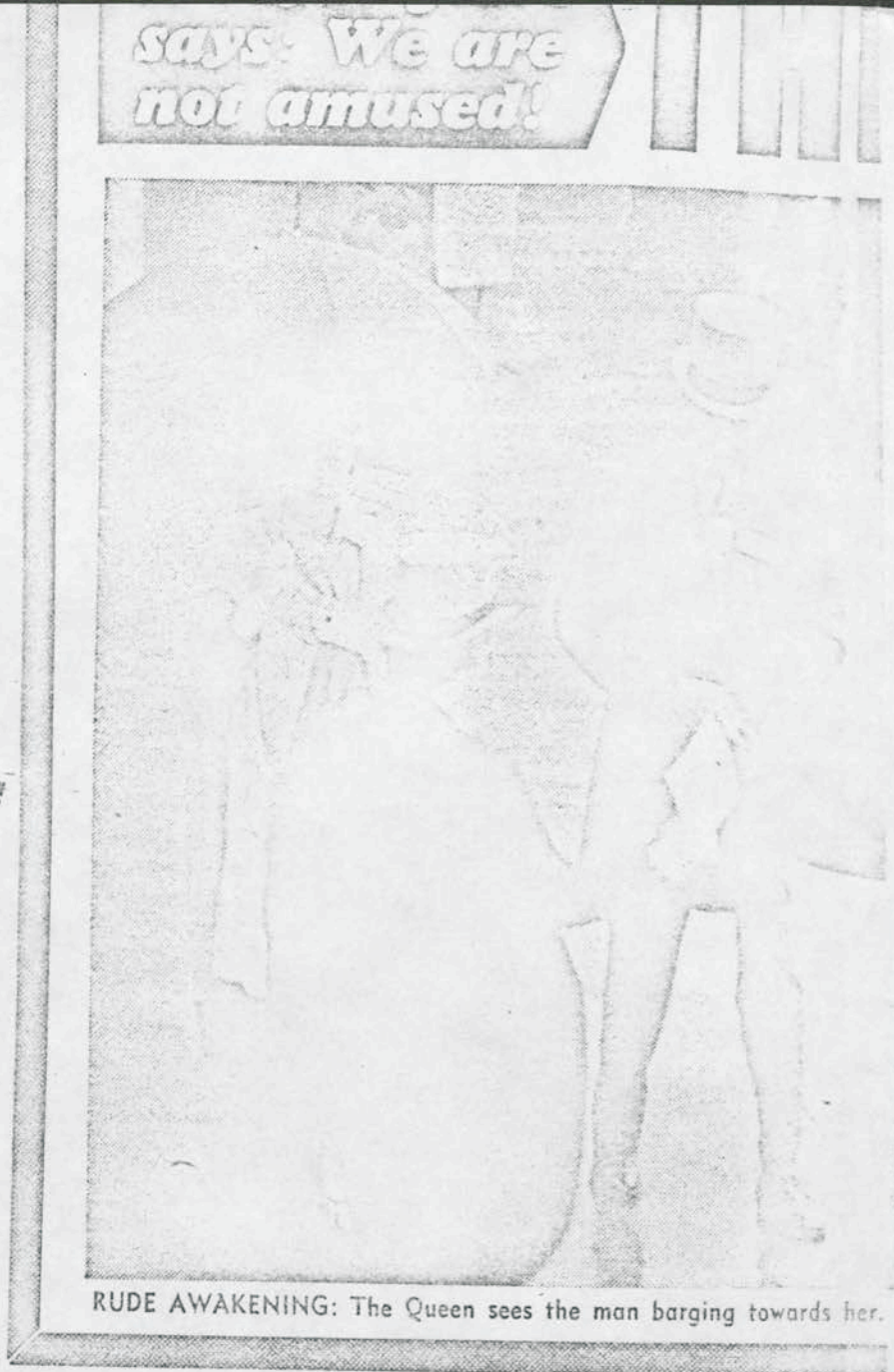
6p a lb. cheaper from next Monday market deal announced yesterday by Peter Walker.
... increases the Market subsidy on could halve the 1p in the lb. rise in recast last week.

is facing air chaos

... could be in for airport misery today. ... threatens London's ... after the civil ser- y strike. ... trollers who joined ... d most flights to be ... e backlog has to be weekend. ... e warned to check ... e setting out for the ... so affected by yes- and Glasgow Airport ... e were fifty Vietnam- ... e at Heathrow from ... y were delayed in ... so shut down the Centre. Windscale the Royal Mint in



STRANDED: Two tots. Picture: DENNIS STONE



SAYS: We are not amused!

RUDE AWAKENING: The Queen sees the man barging towards her.

Mr Who banks on a new name

A MAN without a past is planning to make a fresh start . . . with a name picked out of the phone book.
The mysterious Mr. Who has been in hospital for two weeks after collapsing and suffering total loss of memory.

SEX BISHOP IS SACKED

A BISHOP was sacked yesterday after he was found guilty of seducing his chauffeur's wife.
The scandal broke when Greek Orthodox Bishop Stylianos of Preveza rejected blackmail demands from the chauffeur and his wife.
It ended yesterday when the film they had tried to sell him, showing the bishop embracing the wife, was seen by the church's court.

Last night he said from his ward at West Cornwall Hospital, Penzance: "I went through the telephone directory, drew up a short list of names, and then let the nurses choose one."
"Now I am John Barclay. I can't forget that because it is in every high street."
John is aged about 27, 5ft. 8in. tall with light brown hair. He can speak a little French, Arabic, German and Spanish.
Now he plans to travel the country with photographs and descriptions of himself to see if anyone recognises him.

News EXTRA

Wendy remanded

STEPHEN SIDOR, 26, of Banner Hey, Merseyside, was remanded in custody for a week by magistrates yesterday accused of the unlawful killing of 19-year-old Wendy Wayte.

Schoolboy hunt

POLICE are on the lookout for Johannesburg schoolboy Alan Brittan, 15, who was brought to England a month ago by bail-jumper George Lewis, a leader of the South African National Front.

IRA killing

PART-TIME policeman Jack Scott, 59, of Monckmore Road, Cockstown, Co. Tyrone, was shot dead in an ambush by IRA killers on his milk round yesterday.

'Ban race' call

A BAN on the Grand National steeplechase was urged at yesterday's annual meeting of the B.S.P.C.A. by chairman

Liz sells her £1m jewel

Liz Taylor yesterday

WEATHER WORLD
TODAY: Dry, some rain later. TOMORROW:



HOLD it! Don't step on his blue suede shoes . . .

It's big-time lyricist Tim Rice turning from words to actions—and doing his Elvis pelvis bit.

The occasion was a party to celebrate the first birthday of his smash West End hit Evita.

Tim, also the Jesus Christ Superstar man,

Picture by Richard Young

wanted to rock the night away.

With him were other superstars Cliff Richard and David Essex, who played the part of Che Guevara for much of Evita's run.

All three tried to outdo each other—and that was when Tim was caught in the Elvis act, an adoring fan at his feet.

Dearer mortgages risk

By JOHN WARDEN

THE MONEY squeeze is set to last through the summer, bringing closer the risk of dearer home loans.

Mrs Thatcher dropped this hint yesterday in Strasbourg when she spoke of Britain's efforts to beat inflation.

But it means a setback to Government hopes of lowering the 14 per cent bank lending rate within weeks.

Said Mrs Thatcher: "We will have to hold it until the money supply problem is dealt with."

And, she explained, that could last until September, which is the time lag before the Treasury gets the benefit of the increased 15 per cent VAT rate.

yesterday when he returned to London with a food prices package which boosts farmers' incomes—but at a price to housewives.

The deal, hammered out at a four-day conference of Common Market farm ministers in Luxemburg, means a five per cent

for Market food produce. As Mr Walker entered the Commons there were Labour cries of "betrayal" and "confidence trickster". Shadow Farm Minister Roy Mason accused him of having been "whipped in Europe" and earning the title of "the weak man in Europe."

Freeze

But Mr Walker was loudly cheered by Tories for getting a milk price freeze and a butter subsidy amounting to 6p in the £.

He claimed that the budget price review was the first with the least increase in prices and the biggest increase in consumer subsidies.

He said that the five per cent devaluation of the green pound from July 2 would make British agriculture more competitive at home and abroad. The freeze on milk prices, he said, was only the first step towards reducing surplus production which had soared in recent years.

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There are also important tax advantages.. All contributions are eligible for valuable tax relief. The proceeds paid from the Guarantee Plus Savings and Protection Plans are free of all tax, and pension payments from the Retirement Plan are treated as earned rather than unearned income.

For further details please contact your nearest Save & Prosper office.

About Save & Prosper

Save & Prosper Group was founded in 1934 and in addition to being Britain's largest unit trust group is also a major force in life assurance, pensions and annuities.

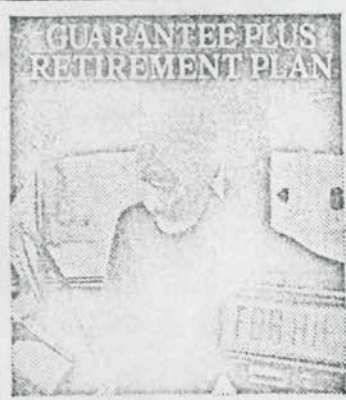
At 2nd April 1979 Save & Prosper Group managed £1,000 million on behalf of some



GUARANTEE PLUS SAVINGS PLAN
Example: £25 a month (net of tax relief at 17½%) invested by a man aged 31



GUARANTEE PLUS PROTECTION PLAN
Example: £13.32 a month (net of tax relief at 17½%) invested by a man aged 31



GUARANTEE PLUS RETIREMENT PLAN
Example: £25 a month invested by a man aged 39 would provide a guaranteed pension of £1,296 p.a.