

NOTE FOR RECORD

OR 23/8

Copies to The Governor o/r
Mr Blunden
Mr Loehnis
Mr George o/r
Mr Walker o/r
Mr Dow o/r
Mr Fforde o/r
ONLY

CONVERSATION WITH MIDDLETON: 4 AUGUST

*SEE DAUHO 58
REWASS - NEXT
SECTION.*

1 I complained about "ministerial" briefing to the effect that we wanted the exchange rate down. Middleton said that he was sure that it was not ministers. It was Adam Ridley. He had been doing this for some time on his own bat without telling anyone. He then told Walters whom he thought would be pleased but was not. The Chancellor heard about it and Ridley has been severely sat on. Anyway that is Middleton's story.

2 He thinks everybody is on a slow and steady policy for interest rates; but he worries, however, about what Walters is telling the PM here. He expects that he and EAJG will have quite a tough time with Walters in the autumn on the conversion idea.

I asked whether perhaps Walters might be returning to John Hopkins early next year having done two years. Middleton said he himself had wondered about that and he understood that John Hopkins was suggesting two years was enough; but he had heard nothing at this end.

3 We discussed the possible evolution of fiscal policy in the autumn and next spring. He professed to agree with my suggestion that if nothing were done until the spring we might

(a) have got interest rates down too far and

(b) have the risk of too big a budget concentrated on income tax.

X He was sympathetic to the idea of exploring possible ^{price-}~~piece~~ reducing fiscal measures for what he said would appear to be a sort of November package on the back of the forecasts and the national insurance calculations. On this he said electricity prices might play a part. Lawson now has Cooper and Lybrand's report to the electricity industry which apparently says that their estimates of marginal cost have been too high and that prices are consequently (especially to the consumer) too high even on the criteria laid down for them. He also professed himself interested in a VAT reduction partly because it might enable interest rates plausibly then to come down further. But he confirmed that the Chancellor appears to remain unwilling even to consider such a move.

4 We had some rather unsatisfactory discussion on the state of play on the Stock Exchange reference. Perhaps the only interesting (and disturbing) thing he said was that when the Treasury talked to the Department of Trade officials Philip Brown was utterly at one with Knighton against taking the reference out of the court. He stressed the animus that DoT officials felt towards the Stock Exchange and their belief that the Exchange had dragged their feet. He admitted that this did not square well with the fact that the Exchange had been prepared to meet the proposed new date of autumn '83 while it was the OFT that had in fact further delayed.

Cwm

4 August 1982