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SECRET AND PERSONAL

14.6.83

NOTE FOR RECORD

UC 14/6 .

Copies to The Governor  
Mr George  
Mr Loehnis  
Mr Walker  
Mr Fforde  
Mr Dow  
Mr Flemming  
Mr Leigh-Pemberton

13.6.83

I saw Peter Middleton last night and gleaned a number of things.

#### Monetary Policy

Middleton had obviously been in favour of a  $\frac{1}{2}\%$  cut in base rates this week when he saw Lawson over the weekend but he claimed to have been firm that a  $\frac{1}{2}\%$  was all one could look for and that this was very unlikely to be able to stop a rise in Building Society rates. In justifying a  $\frac{1}{2}\%$  fall he of course gave weight to the exchange rate but in the form favoured by Alan Walters: i.e. that "looked at in the round monetary conditions are tight enough to justify a  $\frac{1}{2}\%$  off". He also said he hoped that we would now be back in a period when there would be more flexibility of interest rates in both directions.

Despite the advice he has been given, Lawson is still keen to prevent a rise in Building Society rates - or at least to defer any increase for as long as possible. He will be seeing the Prime Minister today to discuss this, doubtless among other matters. Middleton himself is to see the Building Societies shortly. Lawson's keenness to try to hold the Building Societies back has led him already to ask could we not trim back the National Savings Programme!

## Other Policy Questions

Middleton said Lawson is quite open-minded about the possibility of joining EMS. He wants to make an early move to help industry in a revenue-neutral way. His first suggestion is to abolish NIS while reducing capital allowances by an equal amount.

He showed, according to Middleton, no interest in tax reform, the importance of which Middleton had urged on him, and little inclination to get involved in pay questions. The CBI want to see him, particularly to talk about their success on the pay front and next moves. Lawson's first inclination was to refuse to see them but he has been persuaded to do so. Taking his anti-corporative stand even further, he expressed a hope - perhaps not to be taken too seriously - that he could run the NEDC without any reference to any macro-economic issues. He is apparently also not interested, at least so far, in Building Society reform.

## Other matters

Nicholas Ridley, back as Financial Secretary, will be responsible for personal taxes, capital taxes and the EEC budget. John Moore, the new Economic Secretary, will be responsible (very much under Lawson) for monetary policy, industrial taxes and privatisation. Adam Ridley will stay as a Special Adviser and Rodney Lord will become one.

Middleton was somewhat gloomy about making early progress on financial regulatory issues and fraud. Anthony Rawlinson will be in charge at the new DTI at the official level; but it is not known who will head up the new office of Corporate and Consumer Protection. Middleton's view was

that Rawlinson would be very loth to take any initiatives without full Ministerial backing; he also did not have much hope that Lawson could be brought to interest himself in the complexities and subtleties of how to keep the Stock Exchange case out of Court.

*Cwm*

14 June 1983