PO-CH/NL/0071

PART A

Part A

CONFIDENTIAL
(Circulate under cover and
notify REGISTRY of movement)

Begins: 22/6/83.
Ends: 17/2/84

PO -CH /NL/0071
PART A

PO -CH /NL/0071
PART A

Chancellor's (Lawson) Papers:

CHEVENING 1984

Disposal Directions: 25 Years

[signature]
24/7/95.

CONFIDENTIAL

FROM: D R NORGROVE
DATE: 22 JUNE 1983

, Seen in draft

1. MR BATTISHILL

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
PCC
MEG
Mr Monger
Mr Ridley
PS/Inland Revenue
PS/Customs & Excise

TIMETABLE TO THE AUTUMN

The attached timetable of key dates from now to the end of November has been put together with the help of divisions. Inevitably, much of it is provisional at this stage, particularly for the later months. You may find it helpful to have a little more detail on some of the things shown in the timetable.

Timetable to the Recess

2. The economic day of the Debate on the Address is to be June 29. A first draft of your speech was delivered yesterday.

3. The Government Actuary is expected to publish, probably on 5 July, one of his series of annual reports about the implications of the social security upratings for the National ~~Insurance~~ Fund. This is a somewhat unnecessary affair, and is published simply in order to satisfy legislative requirements which there has been no suitable opportunity to change. There is, however, one awkwardness about it, in that it will include unemployment and earnings assumptions. These were provided by the previous Government, and are an assumed average level of unemployment in 1983-84 of 3.07 million and an increase in average earnings in the same period of 6½ per cent. It is possible that these figures could give rise to some discussion. However the unemployment figure is very close to present levels (3.05 million in May) and the figure for average earnings implies a continuing decline in the trend (the 12 month increase to April 1983 was 7¼ per cent). 6½ per cent was also the figure assumed by the Government Actuary in November 1982 in calculating the effect of this year's increase in National Insurance Contributions.

4. The summer forecast will come forward in the first few days of July. This would provide the starting point if you decide to put to Cabinet a paper on the macro-economy to accompany the Chief Secretary's usual paper on public spending objectives. The Cabinet to discuss these is down for July 21. This meeting will set the context for the detailed Ministerial discussions over the period to the autumn. (My earlier note of today, not to all, discussed the question of macro-economic papers for Cabinet.) Cabinet on July 21 is also scheduled to take a paper by the Chief Secretary on Civil Service manpower.

5. Following last year's precedent, it would be sensible to fix and announce at the end of July the provision for local authority current spending in 1984-85, and the main features of the RSG settlement for that year. An ES Committee discussion of this and of Nationalised Industry IFRs is likely to take place in the middle of next month.

Timetable for the autumn

6. Detailed discussions between the Chief Secretary and departmental spending Ministers will take place in the early autumn, during September and the first half of October. For yourself the early autumn is always heavily committed to international business, with the Commonwealth Finance Ministers meeting and the IMF meetings. In early October there is, of course, the Party Conference.

7. The autumn forecast is provisionally scheduled to be completed around 6 October, though there may in mid September need to be an update of the summer forecast of pay and prices in order to help towards some of the public spending decisions, including in particular any decision on a pay factor. If it is decided to seek decisions on long term public expenditure patterns this would also probably fall in September.

8. The autumn forecast provides the starting point for other decisions that need to be taken and announced by early December. These decisions concern the rates of National Insurance Contributions and any change to the rate of National Insurance Surcharge. Changes to the rates of National Insurance Contributions would take effect from April 1984. Any change to the National Insurance Surcharge would generally also take effect then, though in the autumn of 1982 the primary legislation necessary for an NIS change included special arrangements to allow the reduction in NIS to take effect in the 1982-83 financial year.

9. Cabinet on October 27 is provisionally scheduled to take a macro-economic paper by yourself together with the Chief Secretary's paper on the outcome of his discussions of public spending.

10. Assuming that final decisions on public spending are taken on October 27, the aim might then be to publish the Autumn Statement on or around November 2. This date follows close on the heels of the Cabinet, but Ministers have in the past taken the view that it is right to publish the decisions as soon as possible after they are made.

11. The Autumn Statement was first published last year, following the Government's reply to the Treasury and Civil Service Select Committee Report on Budgetary Reform. It brought together the announcements usually made in the autumn, including the autumn economic forecast required under the Industry Act, outline public expenditure plans for the year ahead, and a summary of the changes proposed for National Insurance Contributions and the National Insurance Surcharge. It also included a section showing the revenue effects of illustrative changes in the major taxes. We shall be reviewing the content of the Autumn Statement to see whether any changes should be recommended. The timetable is based on the assumption that the content and style of the statement this year will be essentially the same as last year.

12. The timetable depends of course on the progress of the public expenditure discussions, but if you are content with it as it stands now, the next step would be to consult No 10 about the timing of the Cabinets and the Autumn Statement. We can provide a draft Private Secretary letter when you have had an opportunity to consider the timetable.

D.R. Norgrove

D R NORGROVE

	JUNE 20	27	JULY 4	11	18	25	AUGUST 1	8	15	22	29
CHANCELLOR'S PRINCIPAL COMMITMENTS.	22 QUEENS SPEECH	29 ECONOMIC DAY OF DEBATE	4 NEDC.	11 ECOFIN.	27* HOUSE RISES	25 26 G-5 MINISTERS.	1 NEDC.				
ECONOMIC STRATEGY (FORECASTS AND CABINET DISCUSSIONS)			1/2 EARLY JULY, SUMMER FORECAST.		21 CHANCELLOR OF THE EXCHEQUER'S PAPER ON ECONOMIC BACKGROUND.						
PUBLIC EXPENDITURE.			CHIEF SECRETARY'S PAPER ON PROVISIONAL PES TOTALS WITH DIGEST OF PES REPORT + PAPER ON MANPOWER.		21	28 FALL BACK CABINET ON PUBLIC EXPENDITURE.				PES REPORT CIRCULATED.	
SOCIAL SECURITY		GAD REPORT PUBLISHED.	5								
LOCAL AUTHORITIES.				MID - JULY ES COMMITTEE DISCUSSION OF RSG.		END JULY ANNOUNCE LOCAL AUTHORITY CURRENT SPENDING TARGETS. + RSG.					
NATIONALISED INDUSTRIES.				MID - JULY ES COMMITTEE DISCUSSION OF IFRS.							
TAXES.	FINANCE BILL RESOLUTIONS. 23*	1* PUBLICATION OF FINANCE BILL.	6* SECOND READING.		18* THIRD READING.	21* BILL TO HOUSE OF LORDS.					
STATISTICS.	15 INDUSTRIAL PRODUCTION; 16 MONETARY AGGREGATES; 17 RPI.	30 UNEMPLOYMENT.		11 CGBR; 13 INDUSTRIAL PRODUCTION; 14 MONETARY AGGREGATES; 15 - RPI	21 - PSBR (JUNE QUARTER)		4 UNEMPLOYMENT	10 CGBR; 12 INDUSTRIAL PRODUCTION. + RPI	18 MONETARY AGGREGATES.		

* DATES UNCERTAIN.

[…]EMBER | OCTOBER | NOVEMBER

12 | 19 | 26 | 3 | 10 | 17 | 24 | 31 | 7 | 14 | 21 | 28.

10–11 INFORMAL ECOFIN.
21 22 COMMONWEALTH FINANCE MINISTERS.
25 IMF
27–30 IMF + IBRD INTERIM COMMITTEE.
3 – NEDC
11 – 14 PARTY CONFERENCE.
17* HOUSE RETURNS.
20 MANSION HOUSE SPEECH.
24 – ECOFIN.
2 NEDC.
14 ECOFIN.

POSSIBLE UPDATE OF PAY + PRICES FORECAST.
6* AUTUMN FORECAST.
17* DRAFT INDUSTRY ACT FORECAST.
27* CHANCELLOR'S PAPER ON MACRO ECONOMY.
2* – AUTUMN STATEMENT (INC INDUSTRY ACT FORECAST) PUBLISHED.

EXPENDITURE BILATERALS. – – – >
27* CHIEF SECRETARY'S PAPER ON PUBLIC EXPENDITURE TOTALS.

PRELIMINARY TO GAD
27* ASSUMPTIONS
4* FINAL ASSUMPTIONS TO GAD.
20* NIC DECISIONS
2* NIC CHANGE ANNOUNCED. ANY NIC BILL LAID / INTRODUCED.

MISC 21 CONSIDERS RSG DISTRIBUTION. < – – – – – – >
13* CABINET DISCUSSION OF RSG.

POSSIBLE E-COMMITTEE DISCUSSION.
2* EFL'S ANNOUNCED.

20* NATIONAL INSURANCE SURCHARGE DECISIONS.
2* NATIONAL INSURANCE SURCHARGE DECISION ANNOUNCED / ANY NIS BILL LAID / INTRODUCED.

9 CGBR
15 16 – RPI; INDUSTRIAL PRODUCTION + MONETARY AGGREGATES.
29 UNEMPLOYMENT
11 CGBR
13 14 – RPI. INDUSTRIAL PRODUCTION
20 MONETARY AGGREGATES + PSBR (SEPTEMBER QUARTER)
3 UNEMPLOYMENT
9 CGBR
11 RPI
14 INDUSTRIAL PRODUCTION.
17 – MONETARY AGGREGATES.

FROM: J O KERR
DATE: 15 July 1983

MR NORGROVE

cc Mr Middleton
Mr Battishill

TIMETABLE TO THE AUTUMN

The Chancellor had a word today with Mr Middleton about your minute of 22 June. While noting that final decisions on public expenditure might slip a little beyond 27 October, and thus impose some delay on the publication of the Autumn Statement, he agreed that the target timetable should be as you proposed.

2. You should also know that the Chancellor has decided that it would make sense to aim at a Budget strategy weekend conference, along Chevening lines, and perhaps again at Chevening, early next year. The exact date will of course depend on the Budget timetable, on which the Chancellor awaits advice from Mr Middleton, as well as on the availability of Chevening, which I am exploring with the FCO.

J O KERR

fmp

CONFIDENTIAL

cc - PS/Mr Middleton
Mr Battishill

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

4 August 1983

Roger Bone Esq
Private Secretary to the
Secretary of State
Foreign & Commonwealth Office

Dear Roger,

We spoke, a couple of weeks ago, about the possibility of the Chancellor's holding a private pre-Budget weekend conference at Chevening in January. The dates I mentioned were 7/8 or 14/15 January. You told me that the Secretary of State could face with fair equanimity the idea of Treasury beaters in his new coverts on one weekend or the other, but would like to know fairly soon which one it would be.

The Chancellor, who was advised that these Chevening conferences were a highly successful innovation by his predecessor, is delighted that they can continue. He has decided to opt for the second date - ie 14/15 January. Could you confirm that this still poses no problem?

You may wish to let General Graham know that, while the cast list has changed, the plan is to maintain for next January the same format which worked so well, and so enjoyably, in 1982 and this year.

Yours ever,

John K.

J O KERR
Principal Private Secretary

CONFIDENTIAL

CONFIDENTIAL

FROM: J O KERR
DATE: 4 August 1983

PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE

cc PS/Mr Middleton
Mr Battishill
Mr Ridley
Dr Rouse
Mr Lord

b.f. to my successor on 1/VI/84

(NB A good idea to book in very early with the FCO for Chevening, if the Chancellor wants to do it again, as I think he will – and recommend he should)

PRE-BUDGET CONFERENCE

A point for diaries, but not for publication.

2. The Financial Secretary and the Minister of State will recall that Sir Geoffrey Howe last year and this year held Budget planning conferences over a January weekend at Chevening. The Chancellor proposes to maintain this tradition, and Sir Geoffrey Howe, now Chevening's regular occupant, has agreed to make it available for the weekend of 14/15 January. The Chancellor hopes that all Ministers and special advisers will be free to take part.

J O KERR

CONFIDENTIAL

RESTRICTED

From: P E MIDDLETON
Date: 14 November 1983

This seems fine. Cast list OK. As for Sunday, LTPE looks the safer bet. It might, tho rather, be worth moving Mr Schroder for the Sunday discussion. NL

CHANCELLOR

CHEVENING 1984

We ought to be thinking about how to organise Chevening. It proved to be a very successful occasion last year - both socially and in terms of settling the broad strategic approach to the Budget. It seems to work well if we have a good hard first day on budgetary issues, and a rather different but important subject on the second day.

2. We normally assemble for lunch on the Saturday. We might then arrange things as follows:

<u>Saturday</u>: The MTFS and the Budget
after lunch: macro-economic strategy and the MTFS
after tea : monetary and tax issues
after dinner: monetary and tax issues continued

<u>Sunday</u>: either Long term public expenditure or International debt problems. + ? Schroder or + ? Unwin.

A copy of last year's programme is attached.

3. We should aim to produce a paper by Sir T Burns on macro-economic strategy incorporating revised forecast material, and papers by Mr Cassell on monetary matters and tax structure. If we have a good discussion, subsequent budget decisions can all be fitted into an established framework.

4. The numbers are limited by accommodation at Chevening which can take a maximum of 30. On past form the following would be invited:

(a)	All Treasury Ministers and their wives	10
(b)	The Treasury Permanent Secretaries and wives	8
(c)	Mr Battishill, Mr Kerr and wives	4
(d)	All the special advisers and wives	6
		28

5. Last year Sir Lawrence Airey was invited for the first day; he did not stay the night. This year it looks as though indirect taxes will feature more importantly. So if we invite Airey we ought also to invite Fraser. We should also have Mr Cassell along if he is providing papers for the first day. That would mean the addition of a further six (including wives) for lunch, tea and dinner on the first day. We can just about manage this.

6. The other administrative arrangements are handled by my office with the FCO protocol section and are pretty straightforward. One thing I should mention however is that there is a charge for wives. It does not cover the full cost, but is sufficient to avoid any charge of junketing at public expense. I should expect the charge to be of the order of £25-30 this time.

7. The most important thing at this stage is to agree the cast list and ensure that they get the dates in their diaries.

All the Ministers + Perm Secs were warned some time ago.

Pm

P E MIDDLETON

RESTRICTED

CHEVENING

Attendance (with wives)

Chancellor

Chief Secretary

Financial Secretary

Minister of State

Economic Secretary

Mr Middleton

Sir T Burns

Mr Littler

Mr Bailey

Mr Battishill

Mr Ridley

Mr Lord

Mr Portillo

Mr Kerr

TOTAL WITH WIVES: 28

Sunday only

Mr Cassell

Sir Lawrence Airey

Mr Angus Fraser

THE CHANCELLOR OF THE EXCHEQUER'S

INFORMAL TREASURY SEMINAR

CHEVENING

15-16 JANUARY 1983

ANNEX D

LIST OF USEFUL TELEPHONE NUMBERS

Treasury	01-233 3000
Chevening House (in the Hall)	(0732) 460 654
Foreign and Commonwealth Office Conference Officer	(0732) 460 391
Night line to Mr Brittan's bedroom	(0732) 460 470
Mr Kerr's bedroom	Ext 37

(In the unlikely event that there is no reply on the above numbers, the following number will ring throughout the entire house - (0732) 452 353.)

Secretary of the Trustees Major General J D C Graham CB, CBE	
Estate Office (weekdays)	(0732) 454 091
Home	(0732) 453 447
House Manager's Flat Mr Ennis	(0732) 457 925
Kent Constabulary Supt Rackliffe	(0622) 654 32 Ext 251, 325, 434

Hospitals

Cottage Hospital, Sevenoaks	55155 (5 mins by car)
Orpington General, Orpington	27050 (5 mins by car)
Farnborough General, Farnborough (Intensive care)	53333 (15 mins by car)

Doctors

Dr W R Drysdale Eilean Donan Sevenoaks Otford	Otford 3288
Dr Bakkar 70 Bradbourne Road Sevenoaks Kent	Sevenoaks 59608

1. PROGRAMME

The programme is given at Annex A, together with room allocations.
Menus are given at Annex B.

2. TRANSPORT

Transport arrangements for the party will be made by the Private Offices.

3. DIRECTIONS

Directions to Chevening House, Kent, are given at Annex C.

4. USEFUL TELEPHONE NUMBERS

Useful telephone numbers are given at Annex D.

5. SECURITY

The Police have a list of all the visitors.
Members of the party not arriving in official cars should be prepared to offer some form of identification to the Police Officer on duty at the entrance gate to Chevening House.

6. There are some lovely walks at Chevening and those interested should bring stout walking shoes or gum boots.

7 January 1983

Miss Anne Hutchison
Visits Section
Protocol and Conference Department

FOREIGN AND COMMONWEALTH OFFICE

ANNEX A

PROGRAMME

Saturday 15 January

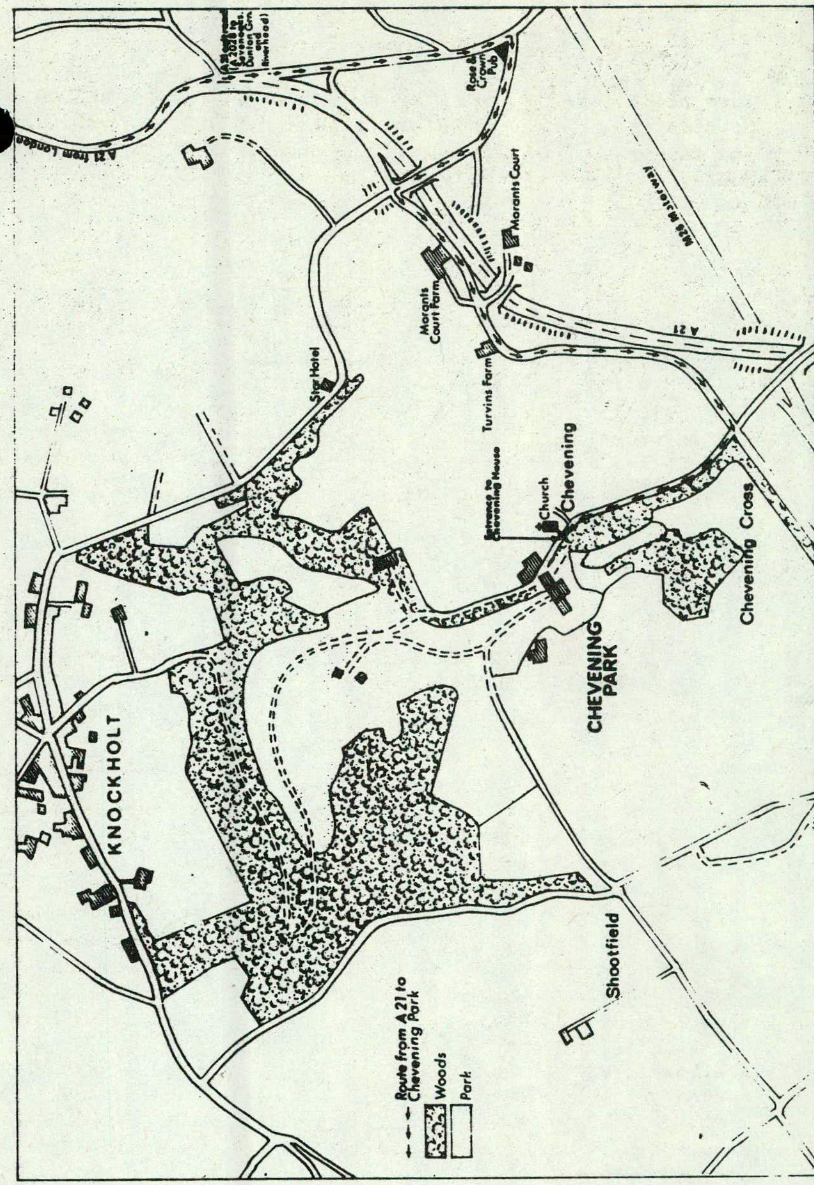
1200	Party arrive Chevening	
1205	Drinks will be served in the Drawing Room	
1245	Luncheon in the Dining Room	Luncheon in the Alcove Room
	Sir Geoffrey and Lady Howe Sir Anthony and Lady Rawlinson Sir Lawrence and Lady Airey Hon Nicholas and Mrs Ridley Mr and Mrs Kemp Mr and Mrs Bruce-Gardyne Mr and Mrs Wakeham Mr and Mrs Middleton	Mr and Mrs Brittan Sir Douglas and Lady Wass Mr and Mrs A Ridley Mr and Mrs Hayhoe Mr and Mrs Kerr Mr French Mr Harris Mr and Mrs Littler General Graham Miss Hutchison
1430	Talks in the Library	
1630-1700	Tea will be served in the Drawing Room	
1705-1845	Talks resume in the Library	
1915	Drinks in the Drawing Room	
1945	Dinner will be served	
	Dining Room	Alcove Room
	Sir Geoffrey and Lady Howe Sir Douglas and Lady Wass Hon Nicholas and Mrs Ridley Mr and Mrs Wakeham Mr and Mrs Kerr Mr and Mrs Littler Sir Lawrence and Lady Airey Mr and Mrs Kemp Mr and Mrs Middleton	Mr and Mrs Brittan Mr and Mrs Hayhoe Sir Anthony and Lady Rawlinson Mr and Mrs A Ridley Mr and Mrs Bruce-Gardyne Mr Harris Mr and Mrs Burns Mr French General Graham Miss Hutchison
2100	Talks may resume in the Library	

/Sunday

ANNEX A (cont'd)

Sunday 16 January

0800-0830	Breakfast will be served in the Dining Room and Alcove Room
0900	Talks will resume in the Library
1030	Coffee will be served in the Library
1200	Drinks and Buffet Luncheon
1430	Departure



Turn right here, signed 'Chevening Church. No through road'. Go straight through to the end of the village past church, and through Police Gate. Follow road to left to Chevening House.

ANNEX A

ROOM ALLOCATION

Room Number	Room Name	Occupant	Bathroom Number
1	Study Bedroom	Sir Geoffrey and Lady Howe	1
2	Yellow Satin	The Rt Hon Leon Brittan and Mrs Brittan	2
3	Red	Sir Douglas and Lady Wass	3
4	Chatham	The Rt Hon Nicholas Ridley and Mrs Ridley	4
5	Pitt	Mr and Mrs J Bruce-Gardyne	5
6	Centre	Mr and Mrs B Hayhoe	11
7	Dressing	Miss A. Hutchison	West Centre
8	Green	Mr and Mrs J Wakeham	8
9	Dons	Sir Anthony and Lady Rawlinson	9
10	Batchelors	~~Miss Anne Hutchison~~ Mr Mrs P. Kemp	West Centre
11	Ministers	Mr and Mrs T Burns	11

Hailsham Flat

Room 1 (with telephone)	Mr and Mrs J Kerr
2	Mr and Mrs G Littler
3	Mr and Mrs P Middleton
4 (with telephone)	Mr and Mrs A Ridley

Cottage

Mr D French

Mr R Harris

ANNEX B

MENUS

Lunch - 15 January

Priory Tartlets

Noisettes of Lamb in Pernod

Mexican Vacherin

Cheese and Biscuits

Coffee

Dinner - 15 January

Avocado with Stilton Dressing

Casserole of Pheasants

Lemon Parfait

Cheese and Biscuits

Coffee

Buffet Lunch - 16 January

Cold

Smoked Fish Paté with Melba toast
Roast fillet of Beef niçoise
Quiche Lorraine
Roulade of Ham stuffed with cream cheese

Hot

Moussaka
Croissants

Salads

Various (Potato, Waldorf, Tomato, Green)

Puddings

Chocolate Gateaux
Bramble Mousse

Coffee.

Annex C

MOTOR ROUTES TO CHEVENING FROM LONDON

Normally the drive from London to Chevening takes one hour, but this can vary by ten to fifteen minutes, either way, depending on the time of day and the traffic. The attached map is for the A21 route only. (see *)

Route 1

Go over Putney Bridge, follow A219 through Putney High Street - Wimbledon Common - South Wimbledon - Merton - Morden - Rosehill - A217 - Banstead Downs - Burgh Heath - Kingswood to Junction with M 25 two miles north of Reigate. Follow M 25 to the East exit at Junction 5 (second exit marked 'Sevenoaks') thereafter follow signs for 'Sevenoaks and Chipstead'. At Chipstead Post Office Y junction turn left along Chevening Road (with lake on right side) for about ½ mile - over large new bridge over Motorways - straight over crossroads - go through hamlet of Chevening, past Church, follow road round to left to Chevening House.

Route 2

Take A23 (Brighton Road) to junction with M23/M~~52~~ 25 north of Redhill turn east on to M 25, then follow exit directions as in 1 above.

Route 3 - SE London route

Vauxhall Bridge - Kennington Oval - A202 (this road is regularly signed to 'Sevenoaks') - Camberwell - New Cross - A 20 - Sidcup bypass - St Pauls Cray - St Mary Cray - A224 past Chelsfield to junction with A 21 at Badger's Mount roundabout - A 21 past 'The Black Eagle' (on right), Polhill Garden Centre (on left) and down long hill. Look out for 'Dual Carriageway' sign and slow down. Ignore sign to 'Otford and Kemsing' but immediately thereafter leave A21 at the next fork signed 'A2028 - Sevenoaks Dunton Green and Riverhad'. Go into Dunton Green past the 'Emma Hotel' on left then an Esso station on right and turn right (almost immediately) at the next turning after the 'Rose and Crown' onto Morant's Court Road. (There is also a sign here which reads 'London A21'). Follow this road for about ½ mile. At overbridge over by-pass turn left at sign for 'Sundridge and Brasted'. Continue along this road for about a mile until you come to crossroads.

RESTRICTED

FROM: J O KERR

DATE: 15 November 1983

gmp

MR MIDDLETON

CHEVENING III

The Chancellor has seen your minute of 14 November, and is entirely content with your proposals for the Chevening conference, and with the proposed cast list and Saturday agenda. For the Sunday, he is inclined to think that LTPE might be the better bet, and that, if this were the eventual decision, it might be worthwhile to invite Mr Scholar to come down for the Sunday only.

J O KERR

FROM: J O KERR

DATE: 21 November 1983

1. PA copy to Mrs Lawson.

2. then pmp

JOK.

PS/MR MIDDLETON

CHEVENING

I confirm that Mrs Lawson will be at Chevening.

2. She would be grateful if you could in due course let me have, for her, a full list of acceptances, giving christian names, for husbands and wives.

3. She has chosen menus on the assumption that everyone can eat anything. If you discover that this is a wrong assumption, please let me know.

4. Please count my wife in, too.

JOK.

J O KERR

(Rup)

FROM: APS/Minister of State
DATE: 21 November 1983

MR J F WILLIAMS

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Terence Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo
Mr Kerr

CHEVENING 1984

The Minister of State has seen Mr Middleton's minute of 17 November to the Chief Secretary. He has put the date in his diary and has asked me to let you know that Mrs Hayhoe will be accompanying him.

Debbie McCambridge

MISS D C McCAMBRIDGE

Restricted

FROM: MISS J M SWIFT

DATE: 21 November 1983

MR MIDDLETON

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo
Mr Kerr

CHEVENING 1984

The Chief Secretary has seen and noted your minute of 17 November recording the dates of the Chevening Seminar. Mrs Rees will accompany the Chief Secretary.

JMS

MISS J M SWIFT

RESTRICTED

pwp

FROM: T M STUBBINGTON
DATE: 28 November 1983

MR J F WILLIAMS

2 cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir T Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Kerr
Mr Ridley
Mr Lord
Mr Portillo

CHEVENING 1984

The Economic Secretary has seen Mr Middleton's minute of 17 November to the Chief Secretary. He has noted the date and has asked me to inform you that Mrs Stewart will probably not be accompanying him.

T.M. Stubbington
T M STUBBINGTON

FINANCIAL SECRETARY TO THE TREASURY

pwp

FROM: G D'SOUZA
DATE: 29 November 1983

MR MIDDLETON

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo
Mr Kerr

CHEVENING 1984

The Financial Secretary has seen and noted your minute of 17 November recording the dates of the Chevening Seminar. Mrs Moore will not accompany the Financial Secretary.

Gerald D'Souza

GERALD D'SOUZA

FINANCIAL SECRETARY TO THE TREASURY

FROM: G D'SOUZA

DATE: 29 November 1983

MR MIDDLETON

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo
Mr Kerr

CHEVENING 1984

The Financial Secretary has seen and noted your minute of 17 November recording the dates of the Chevening Seminar. Mrs Moore will not accompany the Financial Secretary.

Gerald D'Souza

GERALD D'SOUZA

RESTRICTED

ic
apparently, you've already paid for this – like a reminder was sent.

MOM 5/1

Thanks!

From: MISS E A CLARKE
Date: 12 December 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Minister of State
Mr Middleton
Sir Terence Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo

CHEVENING: SATURDAY 14 JANUARY & SUNDAY 15 JANUARY 1984

Mr Middleton has decided that the charge this year for those taking their wives to Chevening should be £25.

2. I should be grateful therefore if you could send me a cheque for that amount payable to HM Treasury.

E A Clarke

MISS E A CLARKE
Assistant Private Secretary

pmp

MR MIDDLETON

FROM: J O KERR
21 December 1983

cc Mr Ridley

PETER CROPPER

You should know - and I hope that it will not upset catering arrangements! - that the Chancellor has invited Peter Cropper to drop in at Chevening on 15 January for drinks and the farewell lunch. This is of course what happened last year, when Cropper (having attended Chevening I as a participant) was asked to look in at the end of Chevening II as a guest star.

2. You should also know that the Chancellor has invited Mr Cropper to let him have, on a personal basis, thoughts on the Budget and on the economy generally.

JOK

J O KERR

~~Done~~ PSP.

Pl. let Cindy know

M.

From: MISS E A CLARKE
Date: 10 January 1984

PS/CHANCELLOR
PS/CHIEF SECRETARY
PS/ECONOMIC SECRETARY

CHEVENING

You have indicated to me that your chauffeurs would like to take part in the buffet lunch this Sunday 15 January. Please could they arrive no earlier than 1 pm so as to keep down the cost of the car and indeed could you be conscious of keeping costs down as much as possible throughout the weekend.

E A Clarke

MISS E A CLARKE
Assistant Private Secretary

CONFIDENTIAL

FROM: T BURNS
DATE: 11 JANUARY 1984

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Bailey
Mr Littler
Mr Cassell
Mr Ridley
Mr Battishill
Mr Kerr
Mr Lord
Mr Portillo
Sir Lawrence Airey - IR
Mr A Fraser - C&E

CHEVENING

I attach a paper on the Policy Background to the MTFS.

TB

T BURNS

THE POLICY BACKGROUND TO THE MTFS

THE FIRST FOUR YEARS

1. The Medium Term Financial Strategy has now been in place for four years. It was introduced in 1980 at a time of high and increasing inflation, following large increases in world oil and other commodity prices and the breakdown of the previous administration's incomes policy. It set out targets for monetary growth and an illustrative path for the PSBR, with the aim of bringing inflation down progressively. Essentially the strategy has been successful, though the outturn has differed in a number of details from expectations at the time.

Economic Performance*

2. Recent behaviour of money GDP, output, and inflation is set out in the table below:

% growth	1973-79 average	1979-80	1980-81	1981-82	1982-83	1983-84^E
Money GDP	16.8	19.9	13.7	9.7	9.2	8
Output	1.7	2.6	-4.1	-0.1	2.3	3
Inflation						
- GDP deflator	14.8	16.8	18.6	10.0	6.7	5
- RPI	15.0	15.8	16.3	11.5	7.1	4½

E = latest estimate

After growing by nearly 20% in 1979-80, money GDP decelerated to 9-10% by 1981-82 and has since remained broadly stable. The deceleration was rather sharper than assumed in the 1980 MTFS, which did not envisage nominal GDP growth under 10% until 1982-83, and then only for one year.

3. Inflation has also come down more sharply than anticipated in 1980, and has consistently been lower than forecast. The precise figures depend on the measure of prices used; but using the GDP deflator, inflation fell from nearly 19% in 1980-81 to 10% in the next year and an estimated 5% this year.

* Detailed comparison of present estimates of output and inflation with figures in successive versions of the MTFS is given in an Annex.

4. The pattern of output has been broadly as anticipated in 1980, with falls in the first two years followed by increases in the next two. But the amplitude of the swings has been slightly greater than anticipated. The 4% fall in 1980-81 was greater than forecast, though from a higher level in 1979-80, and the recovery slightly faster, particularly in 1982-83. In the first year of the MTFS, both output and inflation turned out lower than expected; but in subsequent years lower money GDP growth has gone with a more favourable split between output and prices.

5. There have been marked fluctuations in income shares over the last four years. The share of non-oil company profits, which started 1980 just below 10% - well below the levels ruling in the 1960s and early 1970s - fell sharply to reach about 6½% in the first half of 1981. Since then, however, there has been a recovery back to the level of early 1980. Meanwhile the share of wages and salaries has fallen by 3 points since 1980 to around 56%. This pattern was not anticipated in 1980: a fall in the wage share was foreseen; but the extent of the fall in profits, reflecting in part the unexpectedly high interest rates and real exchange rate, and the subsequent recovery was not.

6. The incidence of policy, with particularly strong pressures on the company sector in the first two years, led to a sharp shake-out of labour. Productivity in manufacturing - though not elsewhere in the economy - has risen much more than expected; and this has evidently proved an easier way for manufacturing firms to relieve the pressure on them than cutting real wages. As a result employment has fallen, and unemployment risen, much more sharply than envisaged when the strategy was set out in 1980, even though the level of output is much as was envisaged.

The overall stance of policy

7. The four year programme in the 1980 MTFS showed declining growth in £M3 and an accompanying profile for the PSBR which was intended, given the other economic assumptions being made at the time, to give an acceptable path for real interest rates. In the event, both monetary growth and the PSBR have declined substantially since 1980 although the precise targets have been revised

in subsequent versions of the MTFS and the scope of the monetary target has been widened to include PSL2 and M1 as well as £M3.

Monetary Growth

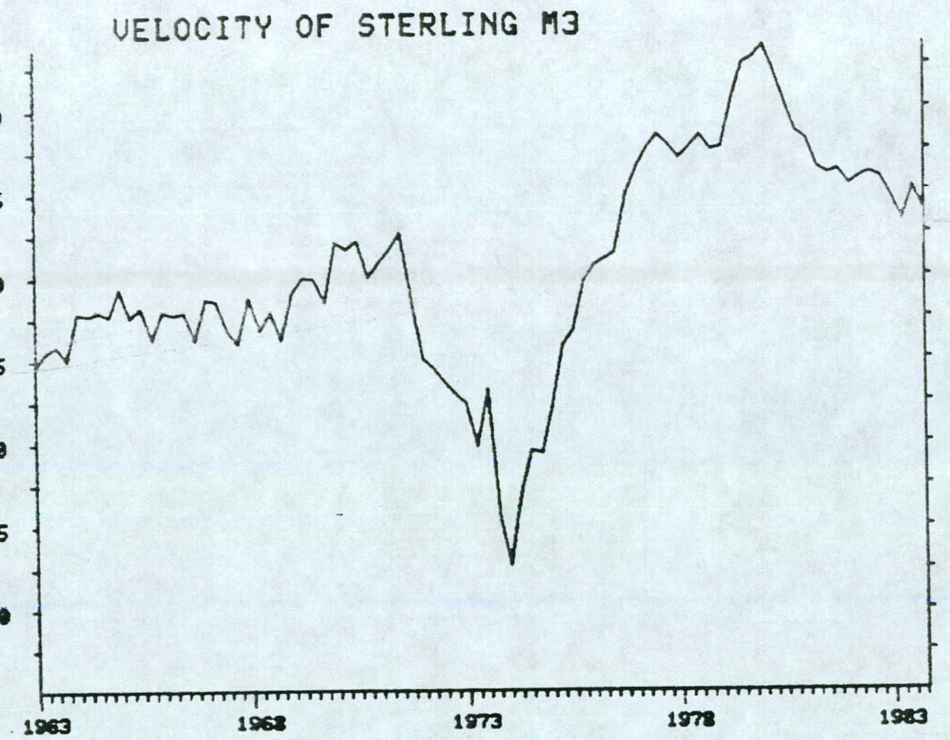
% changes*	1973-79 average	1979-80	1980-81	1981-82	1982-83	1983-84[E]
Money GDP	16.8	19.9	13.7	9.7	9.2	8
MO	12.8	7.6	8.3	2.5	5.3	7
M1	13.3	3.3	12.4	3.9	14.9	13
£M3	12.1	11.5	21.2	12.0	11.5	11
PSL2	12.3	11.5	15.3	10.8	11.4	13

E = latest estimate for target period

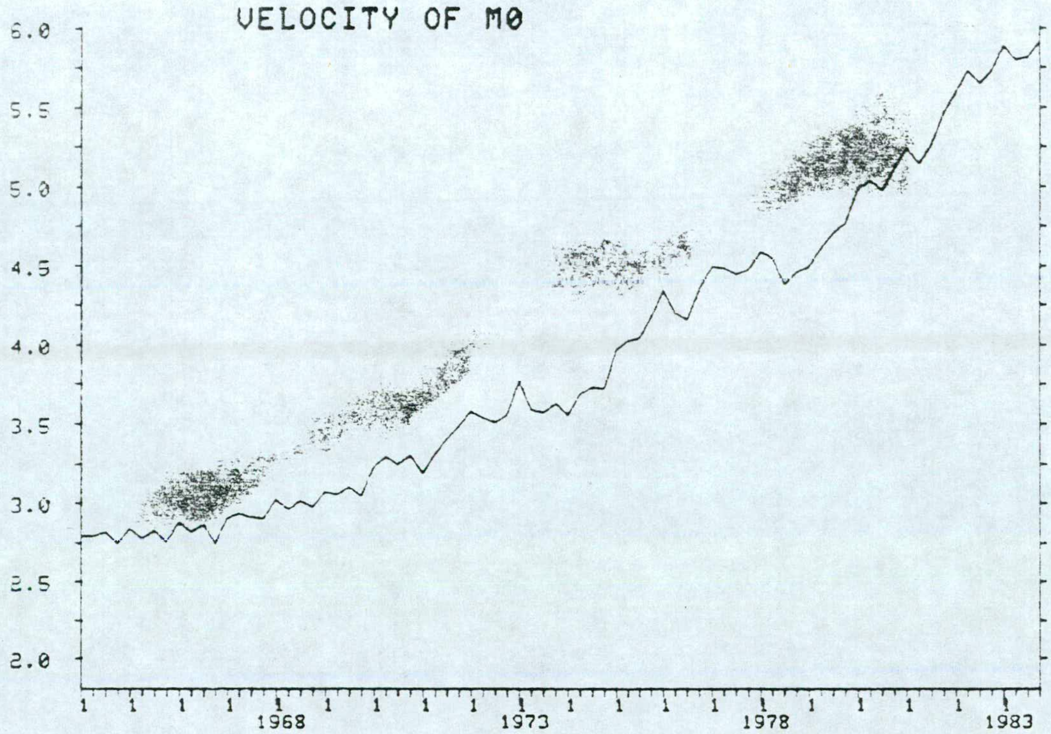
* Apart from money GDP, the growth rates quoted are % changes through the financial year (ie mid-April to mid-April).

8. In spite of unexpectedly rapid deceleration of prices and money GDP, the growth of broad money has exceeded our forecasts throughout the period. £M3 growth was well above the target ranges in 1980-81 and 1981-82, though subsequently it has been just within the higher ranges set in the 1982 MTFS. Throughout the period, broad money growth has exceeded the growth of money GDP, in contrast to the experience of the 1970's on which monetary ranges in the 1980 MTFS were largely based.

9. There have been a number of reasons for this. Financial deregulation, and particularly the ending of the corset in 1980, has led to greater intermediation by the banking system and an increase in the provision of credit to the private sector. The private sector increased its net saving substantially in 1980-81 to compensate for the effects of increased inflation on the real value of its wealth, and kept much of the increase in liquid form. High real interest rates since then may have encouraged a higher wealth/income ratio. Rapid broad money growth relative to money GDP has coexisted with tight financial conditions and better than expected progress on inflation.



10. Narrow money has behaved rather differently. The growth of MO has been consistently some way below the growth of money GDP, as suggested by previous trends, and fell progressively from 1979-80 to 1981-82 under the influence of financial innovation and high nominal interest rates. Since then, nominal interest rates have come down and the growth of MO has picked up somewhat, though remaining below money GDP growth. The path of M2 has been similar. The behaviour of M1 has been significantly more bumpy, reflecting its greater interest sensitivity. But taken together, the narrow aggregates have given a better indication of the tightness of policy than the broad aggregates.



11. The real money supply fell sharply in 1979-80 on all definitions as the inflation rate increased. For narrow money the fall continued almost unabated for another two years before turning up in the last two years. Real broad money has risen continuously since 1980-81.

Real Monetary Growth

% changes	1973-79 average	1979-80	1980-81	1981-82	1982-83	1983-84[E]
M0	0.4	- 11.6	- 3.3	- 6.3	1.3	1.6
M1	0.8	- 5.2	0.3	- 5.0	10.5	6.4
£M3	- 0.3	- 8.4	10.8	2.4	7.2	4.0
PSL1	- 0.1	- 8.4	2.9	1.3	7.1	2.9

E = Estimate

12. In terms of the PSBR, attempts to tighten <u>fiscal policy</u> in the first two years of the last parliament were not successful. The PSBR in 1980-81 turned out significantly higher than the figure in the 1980 MTFS, due to a considerable extent to the effects of recession. But 1981-82 marked a step change by comparison with the previous two years. The PSBR as a share of GDP was reduced from 5¼% in 1979-81 to under 3½% in the next three years. This contrasts with a progressive tightening of fiscal policy which the government was aiming for, and reflects an unexpectedly low PSBR in 1981-82 and an unexpectedly high figure in prospect for this year.

13. Some commentators have argued that fiscal policy has become less tight in the last two years, and there is probably some truth in this. The proponents of this view point to an increasing contribution of asset sales, among other things, arguing that these are rather different from other constituents of the PSBR. The table below gives figures for the PSBR adjusted for asset sales, and for the public sector and general government financial deficits (PSFD and GGFD).

<u>The Stance of Fiscal Policy</u>

£ billion (share of GDP)	Average 1979-81	1981-82	1982-83	1983-84[E]
PSBR	11.6 (5.2)	8.8 (3.4)	9.2 (3.3)	10.0 (3.3)
PSBR <u>plus</u> asset sales	12.4 (5.6)	9.4 (3.6)	10.7 (3.8)	12.3 (4.1)
PSFD	9.8 (4.4)	6.1 (2.4)	8.8 (3.1)	10.0 (3.3)
GGFD	7.4 (3.3)	4.8 (1.9)	7.2 (2.6)	9.5 (3.1)

E = latest estimate

14. The broad picture from these various indicators is that fiscal policy <u>was</u> probably tighter in 1981-82 than in the last two years; and there has been little change in the last year. But they confirm that fiscal policy is now tighter than in 1979-81, though probably less so than the reported PSBR figures suggest.

The figures for the GGFD show a smaller fall since 1979-81 and a stronger rise in the last two years than the other indicators. But despite the attention they have recently received, figures for the GGFD are not appropriate as a measure of fiscal stance. By omitting movements in the borrowing requirement for Nationalised Industries they exclude a significant change in fiscal policy as Nationalised Industry prices were raised to economic levels following a period of subsidisation.

15. Fiscal conditions have undoubtedly become easier in the last two years. This partly reflects a higher nominal fiscal deficit, but mainly the effect of lower inflation. Various indicators of the real fiscal balance are shown below. They all show a significant turnround since 1981-82, which has contributed to the recovery in output.

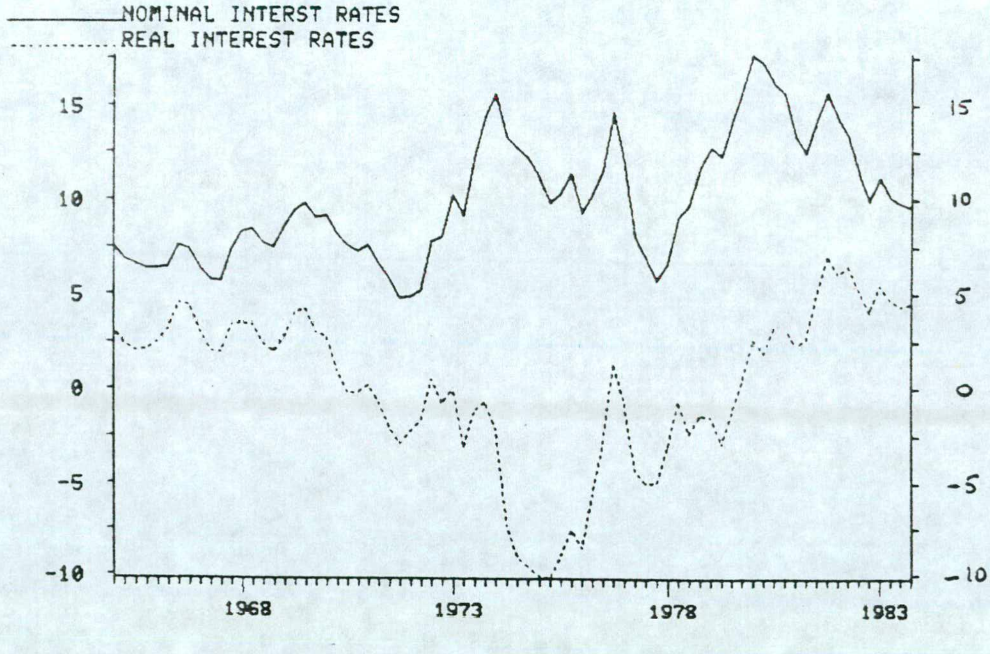
Fiscal conditions

% of GDP	Average 1979-81	1981-82	1982-83	1983-84[E]
Real PSBR	- 0.4	- 0.5	+ 1.1	+ 1.6
Real PSBR plus asset sales	-	- 0.3	+ 1.6	+ 2.3
Real PSFD	- 1.1	- 1.5	+ 1.0	+ 1.5
Contribution of inflation	- 5.6	- 3.9	- 2.2	- 1.8

E = latest estimate

16. After being raised to 17% in late 1979, and remaining high in 1980, nominal interest rates have been brought down significantly as inflation has fallen, with a temporary interruption in late 1981 reflecting weakness in the exchange market. However real interest rates remain high in both the UK and in other countries. They are as high, or higher, now in the UK as they were in 1980, and on this basis monetary conditions clearly remain tight.

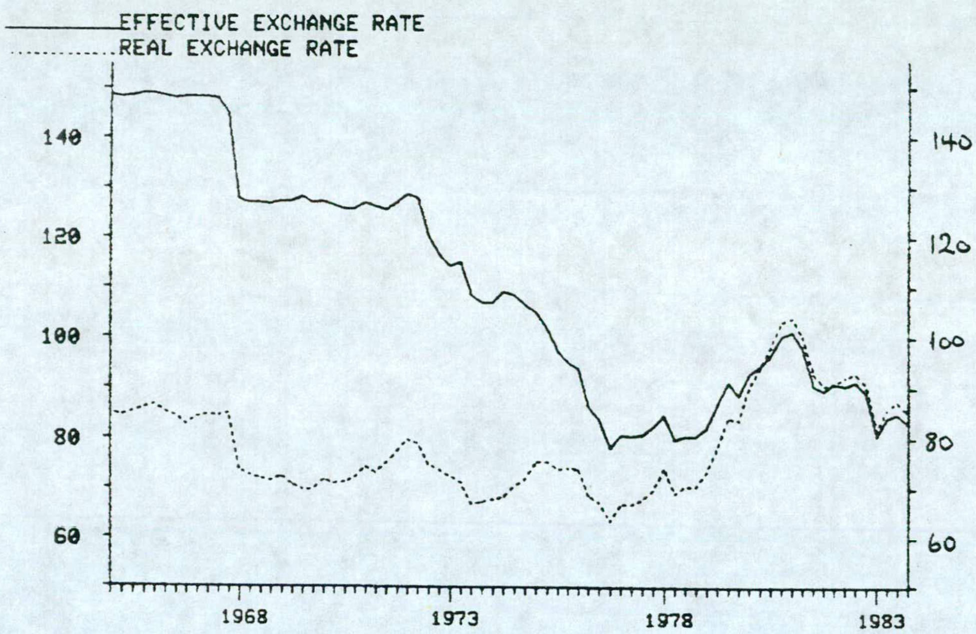
REAL AND NOMINAL 3 MONTH INTEREST RATES



REAL=NOMINAL MINUS AVERAGE OF FORWARD AND BACKWARD LOOKING INFLATION

17. The real exchange rate is now some way below its peak in the early months of 1981. Mainly this is due to a lower nominal exchange rate. The factors which drove it up from 1979 - including high nominal interest rates and high oil prices - have been at least partially reversed, but it remains well above the average level of the late 1970s. Pressure on the traded goods sector of the economy remains, though less so than in the first year or so of the MTFS.

REAL AND NOMINAL EFFECTIVE EXCHANGE RATE



Public Expenditure and Taxation

18. An aim of policy at the outset of the MTFS in 1980 was progressively to reduce public expenditure as a share of GDP. In the event this has not been achieved. The share of General Government expenditure has tended to increase, and only this year does it seem likely that there will have been some fall. It has grown faster than forecast over the first two years of each MTFS projection published so far, but the out-turn has been particularly different from the forecast made in the first MTFS in 1980.

Government Expenditure and Receipts*

% of GDP	1979-80	1980-81	1981-82	1982-83	1983-84[E]
General Government Expenditure**					
1980 MTFS	44.9	45.6	44.5	42.9	41.5
Out-turn	43.5	46.1	46.5	47.3	45.7
General Government Receipts***					
1980 MTFS	39.6	41.3	41.4	42.0	41.5
Out-turn	38.4	40.2	43.1	43.6	42.1

* National Accounts basis

** Including gross interest payments

*** Including gross interest receipts, before fiscal adjustment

E = latest estimate

19. Three major factors have contributed to this. First, social security expenditure has grown more rapidly than expected, partly because of the failure to predict the extent of the rise in unemployment. Second, debt interest payments have been much higher than anticipated, both because of higher interest rates, especially in 1980-82, and also higher borrowing in some years. And local authorities have also consistently spent more than expected. But even this performance on expenditure has been difficult in the face of progressively higher bids from spending departments.

20. In the face of this out-turn for expenditure, taxes were raised sharply in 1981 budget. In spite of net tax reductions in the 1983 budget, general government receipts as a % of GDP are still expected to be higher in 1983-84 than in 1980-81 - and much higher than the figures in the 1980 MTFS, particularly if allowance is made for the fiscal adjustment of around 2% of GDP which was expected at the time. However, to a large extent this reflects higher receipts from the North Sea, which are expected in 1983-84 to be nearly four times the 1979-80 level.

THE PERIOD TO BE COVERED BY THE MTFS

21. The first MTFS in 1980 covered four financial years (1980-81 to 1983-84). The next three covered only three financial years. If the practice of rolling forward by one year only were continued, the 1984 MTFS would cover 1984-85 to 1986-87. However it is worth considering whether to extend this period to four or even five years.

22. The main argument for extending it is that it is appropriate at the beginning of a new Parliament for the Government to indicate its intentions over the whole life of the Parliament. The final year of a five-year period would be 1988-89, the Budget for which could in principle take place under the present Government if it ran its full five years.

23. The MTFS sets out the Government's broad objectives and plans for policy over the medium term. This acts as a constraint on policy in future and thereby contributes to the consistency and stability of policy over time. It also signals to the private sector what the policy framework will be, and hence encourages more efficient decisions. The longer the period of the MTFS the greater are the benefits of this kind that result.

24. There are some potential problems with a 5 year MTFS. Previous MTFSs have set out the assumptions about inflation and money GDP growth rates over the medium term which formed the basis for the financial framework. It would be difficult not to continue to do this. If a five-year period were adopted the assumptions about the end of the period would be interpreted as evidence of the Government's views about longer-term growth and inflation possibilities. It would be necessary to follow a careful line between appearing to be too optimistic and appearing over-pessimistic, while all the time emphasising the uncertainties. Similar difficulties arise with the output growth and inflation assumptions underlying any long-term public expenditure exercise, with which the MTFS would, of course, have to be consistent. The problems of this sort would be less if the MTFS covered a shorter period.

25. Another argument against extending the MTFS is that the figures for the later years carry little credibility because of the likelihood of unexpected developments. The MTFS may not therefore have a significant impact on expectations or behaviour. One aspect of the unreliability of figures for later years is that the Public Expenditure Survey only goes up to 1986-87.

26. The unreliability aspect should not, however, be given too much weight. In the case of public expenditure, the broad intention of holding the total constant in cost terms has already been mentioned in public. Any Green Paper or other document on long-term expenditure would provide the basis on which to prepare projections up to 1988-89. More generally, the later years of the MTFS will not be regarded as unconditioned projections of what fiscal and monetary policies will be - come what may. The discussion of the MTFS in the FSBR has always made clear that policies may have to change if domestic and world developments differ from those foreseen. The purpose of the numbers in the MTFS is to fill out the description in the text of the Government's broad strategy, on one particular set of assumptions about future developments. We have seen in recent years that revisions to monetary targets and PSBR paths have not affected credibility adversely when we have explained the reasons for them.

27. If the MTFS this year was to cover five years, the question arises whether the period should be rolled forward by one year in 1985 and subsequent years or whether one or two years might be dropped off the end. There is a precedent for dropping a year: the 1981 MTFS covered the three years to 1983-84 following a four-year period, also to 1983-84, in the 1980 MTFS. The argument for shortening the period would be that there was no need to go beyond the end of the Parliament. But there is a contrary argument, namly that it is helpful to show how the policy framework will evolve over the medium term, even if that goes into the next Parliament. Even with a shorter period this argument becomes relevant as the Parliament advances through its term. Whatever course might be chosen in 1985 and subsequent years, no problems are likely to be presented that should be taken into account in deciding on the period for the 1984 MTFS.

28.On balance, I favour extending the MTFS to cover five years (1984-85 to 1988-89) even if it is thought that the MTFS in subsequent years should cover only four years. I do not judge the disadvantages of presenting figures for later years that are admittedly subject to considerable revision to be serious beside the advantage of being able to chart a consistent strategy over the whole lifetime of this Parliament.

MEDIUM-TERM OUTLOOK

29. Policy for the medium term has to be set against a background of likely developments in the absence of significant policy changes. This section discusses the outlook in general terms, the next section discusses objectives, and then the remaining sections discuss the financial framework consistent with the achievement of these obectives.

30. Taking <u>inflation</u> first, the central question is whether it will continue to fall over the medium term. Those who argue that it will do so place considerable weight on the depressive effects of the relatively low <u>level</u> of economic activity and low inflationary expectations. Unemployment is expected to remain above the natural rate for some years, and capacity utilisation to be considerably short of full capacity. A further, perhaps substantial, reduction in earnings growth may occur. The low capacity utilisation may limit the extent to which companies are able to raise profit margins, and it may stimulate them to make further improvements in productivity.

31. On the other hand, others place more emphasis on the effects of <u>changes</u> in the level of economic activity. They draw attention to the pressure that rising activity tends to place on costs and prices: commodity prices and wages would tend to rise more rapidly, the exchange rate might come under pressure, and companies would take the opportunity of the growing demand to restore some of the reduction in their profit margins that they have suffered in recent years.

32. Another way of posing the question about whether inflation will come down further is to ask whether the labour market will continue to adjust. Labour market adjustment can be thought of as a situation in which real wages grow significantly less rapidly than productivity. In this situation, profit margins will increase, as they have been doing over the last couple of years, without necessarily preventing a continued downward movement in inflation.

33. The argument that the low <u>level</u> of activity will contribute to a further downward movement in inflation relies to a considerable extent on the expectation that there will be continued adjustment in the labour market. This could be reflected either in lower growth in real wages without much change in productivity growth, or in a continuation of the relatively rapid productivity growth of the last 2-3 years without much slowdown in real wage growth (or a combination of the two). Those who emphasise the inflationary impact of the <u>rise</u> in level of activity tend not to expect much adjustment in the labour market.

34. The extent of labour market adjustment is also critically important to an assessment of likely developments in output and unemployment. So also is the type of adjustment, namely whether it takes the form of slower growth in real wages or faster growth in productivity. Both types improve profitability and hence contribute to faster output growth. Real wage adjustment is likely to lead to a faster fall in unemployment than productivity adjustment. Indeed the latter may well involve some temporary rise in unemployment if the productivity gains were especially sharp. However, productivity adjustment would produce more rapid output growth than real wage adjustment, because it represents a larger rise in the rate of growth of productive potential. The real incomes of those in work would also grow faster.

35. Thus an assessment of the extent and nature of future labour market adjustment is central to the view that one takes of medium and longer-term developments. The evidence from the past provides some pointers:

- there has been considerable adjustment during the last two or three years, especially in manufacturing: profitability has risen sharply, albeit from a low level;

- this has occurred almost entirely on the productivity side: on average we have not seen markedly slower growth in real wages than had been achieved in the past;

- in general, companies have reacted to the financial pressure on them by improving productivity rather than by striking tougher bargains over real wages,by contrast with what has been occurring in the US; and on the union side there has apparently been a willingness to see jobs lost as long as the real wages of those in work were maintained.

36. Looking to the future, this sort of pattern may well continue. The low levels of productivity in the UK, especially in manufacturing, compared with those in other European countries, show that there is still plenty of scope for productivity adjustment, even without any new investment. Furthermore, the historical relationship between

productivity growth and investment suggests that only a small rise in the share of investment in GDP over the next few years would be necessary to sustain faster productivity growth of, say, an extra 1 percentage point a year, assuming that the new investment is at least as productive as it was in peace-time periods up to the late 1960s.

37. Thus some labour market adjustment on the productivity side can probably be expected. There may also be some on the wage side. It is difficult to see the present higher unemployment and changes in labour market institutions not leading to some increase in flexibility , including a greater responsiveness of real wages. But the effect may not be dramatic and it may be most significant in non-manufacturing. The emphasis in manufacturing is more likely to be on high than on low wages and productivity.

38. There may therefore be some tendency for productivity growth to fall over the course of the next five years, with diminishing scope for further catching up on our competitors and with the growth of some relatively low productivity employment. In considering the growth of productive potential it is also necessary to take North Sea oil and labour supply into account. Production in the North Sea may begin to decline later in the MTFS period, tending to pull down the growth of output per head in the economy as a whole. There may also be some decline in the growth of labour supply. Since all three components of potentive potential may tend to decelerate, it is likely that potential growth at the end of the period will be considerably less than it is now, at perhaps about 1½% a year.

39. Some tentative conclusions can be drawn about the medium-term outlook, assuming a broadly unchanged stance of policy. Some relatively slight decline in inflation from the present 5% may occur. There should also be some fall in unemployment, again possibly not very large. Output growth should remain better than in the 1970s but not necessarily as high as in the most recent period.

MEDIUM-TERM OBJECTIVES

40. The medium-term objective of fiscal and monetary policy, as set out in the Mansion House Speech, is to continue to reduce inflation gradually with the ultimate aim of price stability. Of course the policies that may be required to achieve price stability and the associated movements in output and employment are inherently uncertain as they depend on the performance of the economy and how much adjustment takes place in the labour market. Generally speaking, the more adjustment there is, the more favourable are output and unemployment developments for a given inflation objective. The assessment that follows is based on the assumption that a moderate amount of adjustment will occur.

41. The difficulty with a determined move to achieve price stability within five years on this assumption of performance, is that there would have to be a major deceleration of money GDP growth fairly early in the period. The pattern of the 1980-83 disinflation suggests that with such a sharp deceleration output growth would be initially affected more than inflation, although after a time the split of money GDP growth would become more favourable: output growth would rise again and inflation would fall. Unemployment would be adversely affected in the early years unless rapid adjustment occurred in the labour market. To achieve the objective of

price stability within this period would mean a sharp reduction in the PSBR as a percentage of GDP and in monetary growth. Even with a tight fiscal stance there would probably be a rise in interest rates and they would stay higher for a time; nominal interest rates would also be temporarily higher. It is difficult to see any room for tax cuts, unless significant reductions in expenditure could be achieved, or the disinflationary pressures in the economy turned out to be greater than seems likely.

42. The Mansion House Speech explained that a slightly less rapid movement towards price stability might be a preferable strategy. Inflation would still be kept on a downward path, but price stability would not be reached within five years. This would be consistent with bringing the growth of money GDP down significantly to, say, 5-6% a year over the period from the present rate of about 8%. The eventual movement of inflation and output growth will depend on the overall performance of the economy, and especially on labour market adjustment. If the sort of developments discussed earlier occur, and there is continued adjustment on both the productivity and real wages sides, inflation might be of the order of 3-4% after five years, and output growth average around 2½% a year over the period. There would be a reasonable expectation of some fall in unemployment assuming that productive potential was growing at about 1½% a year at the end of the period.

43. If the economy performed less well than this with little labour market adjustment and a poor supply response, inflation might not come down so far and output growth would tend to be lower for a given growth of money GDP. There would be little prospect of a fall in unemployment. On the other hand a better performance associate mainly with better labour market adjustment and improved supply conditions might see further progress being made towards price stability and output growth being somewhat better. Unemployment then might be expected to fall decisively. The objective of "supply side" policies is to improve the chance of rapid adjustment occurring.

44. If it became evident that the economy was performing better or worse than assumed then in future years it might be desirable to alter the objective for money GDP. For example, if there were a marked absence of adjustment and inflation showed little sign of falling there would be a case for aiming for greater deceleration

and tightening policy. However it would also be possible to argue that slow adjustment implied that there were substantial costs in bringing down inflation that much further. We therefore need to reconsider from time to time the judgment about the appropriate path for money GDP. For the moment our analysis points to assuming some moderate adjustment and gearing fiscal and monetary policy towards a growth of money GDP of 5½% by the end of the period.

ASSUMPTIONS FOR THE MTFS

45. Although there is considerable uncertainty about the way that the economy will develop we have to state the assumptions for output and inflation that underlie the projections for revenue and borrowing in the MTFS. It is necessary to consider the kind of figures that we might publish if it were decided to pursue the thrust of policy as outlined in the previous paragraphs. The table shows average and final year inflation and output growth associated with the reduction in money GDP to 5½% in the final year, assuming moderate adjustment.

Assumptions for the MTFS
(per cent a year)

	Output growth	Inflation	Money GDP growth
Period average	2½	4	6½
Final year	2	3½	5½

46. The assumption of moderate adjustment and average money GDP growth of 6½% a year is probably the appropriate basis to carry out the financial arithmetic. It does not show the pessimistic picture frequently observed in outside forecasts in which little adjustment takes place. But it also avoids the risk of raising doubts about the plausibility of the numbers. As we have seen recently, it is much easier to present policy when the outcome for inflation and output turns out to be better than assumed rather than the reverse.

MONETARY POLICY

47. Monetary policy will continue to be directed to the achievement of targets for monetary growth. For present purposes we assume the targets are set consistent with an objective for money GDP growth falling to 5-6% by 1988-89. Unlike previous years, however, it is the intention to have separate ranges for broad and narrow money. For broad money, the focus of attention might continue to be £M3 (and PSL2). For narrow money the aim is to focus maybe on M0 (and M2).

48. Setting targets for broad money involves a number of difficult judgments. Growth of broad money has exceeded growth of money GDP since 1979-80, and the question is to what extent this downward trend in velocity will continue. Some of the factors reducing velocity in recent years may well be less important in the next five years, and some may even be reversed:

- the effects of financial deregulation should eventually slow down or stop, though how long the process of adjustment will take is not easy to predict.

- some reduction in real interest rates may partially reverse the increase in financial wealth relative to income which has been observed since 1979.

49. Whether it is reasonable to expect a reversion to the upward trend in velocity observed in the 1970s is debateable. It would mark a significant change from recent behaviour. A more cautious approach would be to work on the assumption that the velocity trend flattens off over the period. On this basis it would probably be reasonable to aim for a 1 point annual reduction in target range for broad money over the period of the MTFS from the present range of 7-11%. However this may mean £M3 in the upper half of the ranges and PSL2 near the top end. One possibility is to raise the range to 7-11% in 1984-85, particularly if the range is also to apply to PSL2, and then reduce it steadily in subsequent years. However, this would pose difficult problems of presentation, and may adversely affect confidence in financial markets. An alternaitve which would

partly get around these problems would be to stay with 6-10% for 1984-85 and hold the range at that level in 1985-86 also, before reverting to a downward path. The balance of argument depends on the weight to be given to PSL2.

50. One possible set of assumptions which, of course, will have to be considered in the light of the forecast and the views of the Bank, is illustrated below.

<u>Broad Money Targets</u>

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Money GDP	8	7½	7	6½	6	5½
£M3	11	9	8	7	6	5
PSL2	13	10	9	8	7	6
Target range	7-11	6-10	6-10	5-9	4-8	3-7

51. For <u>narrow money</u> the ranges will have to be lower than for broad money. They will have to be based primarily on the behaviour of MO since we have insufficient data for M2. It is reassuring, therefore, that MO and M2 growth rates have been broadly similar since M2 data has been collected. The velocity trend for MO has been upwards at an average about 4% pa in the last 20 years. The acceleration of velocity after 1979 probably owed something to high nominal interest rates - the disinflationary policy bringing down MO growth ahead of money GDP. There are signs of a deceleration in velocity in the last year as interest rates have come down. The likely effects on velocity of interest rate changes and changes in payments habits are the two main factors to be taken into account when setting the targets.

52. The pace of change in payments habits in the next five years is very difficult to predict. But our research suggests that the effect on MO velocity has in the past been relatively smooth. We have no reason to expect that the pace of change will differ significantly from the experience of recent years. Some reduction in nominal interest rates is likely to add to MO growth over the next five years by comparison with previous trends if inflation is brought down further and real interest rates fall to some extent. If interest rates fall

by 4% over the period of the MTFS this might add around 7% to the level of MO relative to income. Since the timing is difficult to predict it makes sense to assume it is spread fairly evenly over the period.

53. This points to a slightly less rapid decline in the rate of growth of narrow money in the next 5 years than for broad money. Given the objective for money income it suggests a path perhaps as below:

Narrow Money Targets

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Money GDP	8	7½	7	6½	6	5½
MO	7	6	5	4	3½	3
Target Range	-	4-8	3-7	2-6	2-6	1-5

FISCAL POLICY

54. Fiscal policy, as noted earlier, appears to have been less restrictive in 1983-84 than intended at budget time. This is part of the reason why broad money growth is near the top of the range in spite of heavy funding. It has led to high real interest rates, which may partly explain the strength of the real exchange rate. It is very difficult to judge what is the appropriate real exchange rate in the medium term. The present level is significantly above the range experienced in the latter part of the 1970s. However, it is not so far above the level of much of the 1960s and the forecasters see no strong pressures pointing to a sharp decline. Even so if anything the balance of interpretation is that a lower real exchange rate and lower real interest rates would provide a better balance for the UK economy in the present phase of adjustment.

55. The present pattern - high real interest rates, real exchange rate, PSBR and broad money growth - points to fiscal policy being relatively lax in relation to monetary policy in 1983-84. Some correction is probably desirable in 1984-85. The approach adopted here is to examine the appropriate longer term size of the PSBR as a percentage of money GDP, and then to discuss the appropriate speed

of adjustment to the chosen level.

(i) The Medium Term

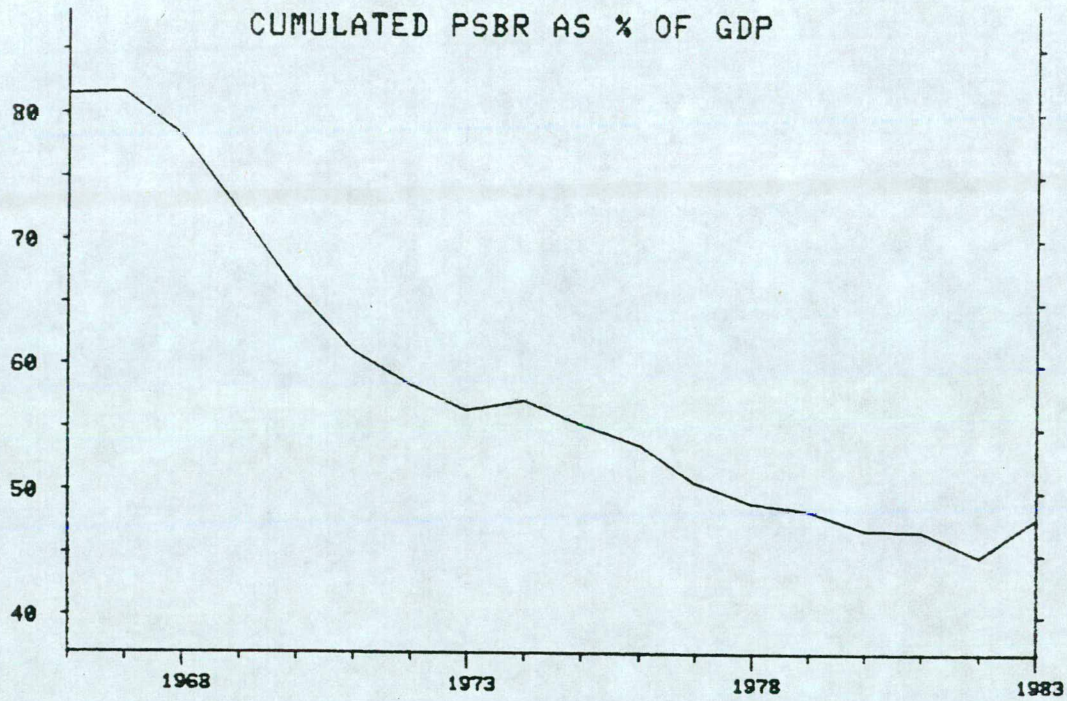
56. The 1983 MTFS assumed a PSBR ratio coming down to 2% per annum in the medium term. This was thought to be broadly consistent with nominal income growth of 8% per annum over the period as a whole. Possible reasons for reducing this figure include:

- lower inflation and money GDP objectives
- higher asset sales/lower net capital expenditure

We therefore need to reconsider the appropriate medium term ratio. The broad aim of fiscal policy is to enable objectives for the monetary aggregates and money GDP to be met at acceptable levels of interest rates. Both these criteria point to a reduction in the PSBR as a share of money GDP by comparison with recent levels.

57. The prospect for real interest rates depends on real rates in the rest of the world, as well as on the stance of fiscal and monetary policy in the UK. The impact of world rates over the next few years is uncertain, with the prospect of rising US rates, but perhaps declining rates elsewhere as the dollar comes under pressure. However adherence to the monetary targets set out above is likely to involve continuing high real interest rates unless the stance of fiscal policy is tightened significantly by comparison with 1983-84.

58. There is considerable uncertainty in choosing the path for the PSBR consistent with monetary objectives. Deriving the appropriate PSBR from a detailed analysis of the monetary counterparts and the demand for money has proved to be difficult, given the behaviour of bank lending. It is therefore also helpful to look at the behaviour of public sector debt - or the cumulated PSBR - relative to money GDP, as in the chart below.



59. The chart shows a downward trend in the ratio of debt to income until the early 1970s, but then a clear flattening off which has become more pronounced in the last two years or so. This has occurred in spite of a high rate of investment in overseas assets in recent years - the counterpart of large surpluses on current account - following the abolition of exchange controls which has led to some substitution in portfolios of foreign assets for public sector debt. One explanation of recent behaviour may be the high level of real interest rates, which appears to have been necessary to induce investors to maintain their holdings of public sector debt relative to income at recent levels. This

implies that if we are to achieve reductions in real interest rates over the medium term it may be necessary to set fiscal policy so as to bring the debt/income ratio back to its trend.

59[a]. What the trend is likely to be over the medium term is difficult to assess. The argument advanced above suggests that it may still have to be downwards. However, we also need to take into account the flattening off since the early 1970s, which may continue even with lower real interest rates. With the current account now expected to be broadly in balance, and hence little net UK investment in overseas assets, demand for public sector assets may account for a higher proportion of the private sector's net saving. Some commentators have argued that there may be no downward trend by the end of the MTFS period.

60. Against the background of 5-6% growth of money GDP by the end of the period, maintenance of an unchanged debt/income ratio would require a PSBR of roughly 2½% of GDP. If the downward trend were to continue at, say, 2% per annum - close to the average of the last 10 years - a ratio of 1½% would be appropriate. This would imply a greater degree of caution, consistent with the previous versions of the MTFS.

61. This approach merely serves to provide a benchmark against which other factors can be examined. In addition to real interest rates and the cyclical position, it is necessary also to take into account the pattern of capital expenditure, North Sea oil revenues, and other structural factors which affect the appropriate scale of public sector borrowing.

62. A parallel paper on public sector capital expenditure concludes that changes in such spending should be taken into account in assessing changes in the PSBR. Net capital spending has declined from around 5% of GDP in the mid-1960s to nearly zero now; and the figures which underlie the Public Expenditure White Paper, which has asset sales increasing from present levels and a decline in gross investment (excluding defence capital), imply a further fall to minus 1% in 1986-87.* Even allowing for the possibility that some of the capital expenditure in the earlier period was not profitable, and that some current expenditure (eg education) ought

* Part of the fall in the later years is accounted for by the assumed privatisation of BT and BA.

to be treated on a par with capital spending for this purpose, this points to lower public sector borrowing than the 2% of GDP observed in the 1960s.

Public Sector Capital Expenditure

£ billion
(%) of GDP)

	1978-9	1979-80	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6***	1986-7
Gross*	9.9 (5.8)	10.5 (5.1)	12.2 (5.2)	12.1 (4.7)	11.9 (4.2)	12.4 (4.1)	11.0 (3.4)	9.3 (2.7)	9.4 (2.5)
of which:									
asset sales**	-0.4 (-0.2)	-1.5 (-0.7)	-1.1 (-0.5)	-1.3 (-0.5)	-2.5 (-0.9)	-2.7 (-0.9)	-4.2 (-1.2)	-3.7 (-1.0)	-3.6 (-1.0)
Net**	3.1 (1.8)	2.5 (1.2)	2.7 (1.2)	1.7 (0.7)	0.6 (0.2)	0.1 (-)	-2.1 (-0.7)	-2.7 (-0.8)	-3.2 (-0.9)

* Domestic capital formation less special sales of assets
** Gross council house sales plus special sales of assets
*** excluding investment by BT and BA from 1985-86

x based on estimates of capital consumption, after 1982-83

63. The pattern of oil production also points in this direction. We are now close to peak production, and as a consequence, revenues from the North Sea currently exceed the stream of additional tax which is sustainable in the longer term. It can be argued that this should be reflected in reduced public sector borrowing, with saving of debt interest used to compensate for lower revenue as the oil runs out.

North Sea Oil Revenues

	1978-89	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89
£billion	0.6	2.4	3.9	6.5	7.8	9.0	9.9	9.7	10.1	9.2	9.7
% of GDP	0.3	1.2	1.7	2.5	2.8	3.0	3.0	2.8	2.8	2.4	2.4

64. A further consideration is the pattern of demographic change and pension provision. Higher pension commitments falling due in the next century, associated with rising numbers in retirement relative to those in work and the coming to maturity of the state scheme, point to higher net savings now than is implicit in a pay-as-you-go system. This is a potentially very important consideration for the longer term which will have to be examined further in the context of the Secretary of State for Social Services' inquiry into provision for retirement. But it is a further argument for lower public sector borrowing in current circumstances.

65. These structural factors suggest a PSBR at the bottom end of the range indicated by the debt/income calculations. The aim to reduce inflation by means of balanced fiscal monetary policies points to the same conclusion. It therefore seems appropriate to plan on the basis of a PSBR equivalent to 1½% of GDP by the end of the period. As the period is extended in future versions of the MTFS, it may be appropriate to aim for lower figures at the end as the economy moves towards price stability.

(ii) The Short term

66. We start from a position in 1983-4 in which the PSBR looks like being 3½% of GDP. The key issue is how quickly it is reasonable to get down to the medium term objective of 1½% of GDP.

67. It is quite acceptable to allow for the PSBR to deviate from its medium term 'norm' in response to cyclical factors. That was an important reason why we felt able to allow a rise in the PSBR ratio in the 1981 Budget, How much it should be allowed to vary over the cycle depends partly on the relative efficacy of fiscal policy and interest rates in stabilising the economy. There is no presumption that the stabilisers inherent in the fiscal system should be automatically allowed to operate fully. The combination of PSBR and interest rates appropriate at any stage in the cycle is a matter of choice for the Government.

68. Arguably it makes sense for the Government to bring the PSBR back to its appropriate medium term norm as the economy approaches a cyclically neutral position. However, a gradual move towards lower inflation probably means fiscal policy adjusting ahead of

output and inflation. This suggests it would be appropriate to bring the PSBR down to its appropriate medium term level even while unemployment remains some way above its longer term level.

69. A further consideration is that before the end of the MTFS, the contribution of oil revenues to the PSBR will start to decline as production falls. By comparison with the peak over the next two years, oil revenues may well fall by about ½% of GDP, and for any given PSBR this means higher receipts from other sources. The process of adjustment to a lower PSBR is thus likely to be harder in the later years than the PSBR numbers themselves indicate. This suggests making as much progress as possible in the early years, before the oil revenues start to fall away significantly in 1987-88.

70. A further factor to be taken into account is the profile to asset sales. Relatively high figures in the early years for example would increase the case for a relatively quick reduction in the PSBR. This conclusion is reinforced by the fact that there has been a significant rise in asset sales in the last four years, which has not been fully reflected in a lower PSBR.

71. Against these arguments for bringing down the PSBR quickly in the early years of the MTFS period must be set the fact that the room for manoeuvre on fiscal policy looks to be most limited in the next year or two. On current forecasts it may be necessary to raise taxes slightly next year in order to get back onto the path set in the 1983 MTFS, which envisaged a PSBR of 2½% of GDP in 1984-85. And yet room for manoeuvre during a period of structural tax reform would be very welcome. This argues against attempting to reduce the PSBR too quickly from its present level.

72. As regards 1984-85, there is a clear need to get back onto a downward path after the prospective overshoot this year. With asset sales rising by £1bn next year, we need to cut the PSBR by close to this amount even to stand still. In order to redress the imbalance between monetary and fiscal policy in 1983-84, and enable real interest rates to come down, there is a clear case for a larger reduction.

73. The precise number must await the outcome of the Winter Forecast. On the basis of the Autumn Forecast and the profile for the PSBR, there will probably be little scope for any net tax cuts in the 1984 Budget. To achieve a PSBR of £8 bn some increase may be necessary. I would want to see the forecast details before making a final judgment. There would be a clear case for £8½ bn rather than £8 bn if tax increases prove to be necessary to achieve the lower figure while significant tax reductions appear to be in prospect for the next year. It would be difficult to explain and justify a proposal for tax increases in 1984 to be followed immediately by tax cuts. At the same time we must be aware that this picture - a relatively difficult fiscal position in the next year or so giving way to an easier position later on - has been a feature of most recent forecasts, and in view of recent experience in forecasting public expenditure we should retain a healthy scepticism.

74. Even so, after 1984-85 the room for manoeuvre is likely to be somewhat greater; and there is then a strong case for making fairly rapid progress towards achieving the medium term objective. The medium term path I envisage, and the corresponding paths for the PSFD and GGFD, might look as follows:*

£billion (% of GDP)	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
PSBR	10 (3¼)	8½ (2½)	7 (2)	6½ (1¾)	6½ (1¾)	6 (1½)
PSFD	10 (3¼)	8¾ (2½)	7½ (2¼)	7 (2)	6½ (1¾)	6 (1½)
GGFD	9½ (3¼)	7¾ (2¼)	6½ (1¾)	6½ (1¾)	6 (1½)	5½ (1¼)

75. This implies sticking to the PSBR figures as a share of GDP in the 1983 MTFS for the first two years, with a gradual decline after that.

* Annex B shows a ready-reckoner for PSBR figures and ratios

76. The PSFD and PSBR move in a broadly similar manner. In the early years, the PSFD is slightly higher, with extra proceeds from special sales of assets being only partially offset by net lending to the private and overseas sectors. In the last two years, the PSFD may decline faster than the PSBR if the asset sales programme slows down. The GGFD, which excludes government loans to Nationalised Industries, is likely to be a little below the PSBR and the PSFD throughout the period.

77. If we succeed in holding public expenditure constant in real terms this should leave room for tax cuts in the years after 1984-5, even in the last two years when oil revenues are falling away. Estimates of the fiscal adjustment must be very speculative at this stage, and extremely uncertain in any event. Again we need to finalise the precise numbers when the new forecast is available, but the qualitative conclusion at this stage points to making significant progress towards a lower PSBR in the early years.

Questions for Discussion

78. There are four broad questions, relating the the period of the MTFS, the medium-term objectives, the monetary targets and the PSBR path.

79. The issue for decision on the period is whether to roll the MTFS forward, by one, two or three years. The main considerations are:

- the impact on expectations
- the effects on future freedom of manoeuvre.

80. The Mansion House Speech provides the starting point for deciding medium-term objectives. It is now necessary to choose particular numbers that can be published as assumptions about medium-term developments.

81. It is not possible at this stage to make firm decisions about monetary targets, especially for the next year or two. Nevertheless a discussion of likely trends in velocity over the short- and medium-term can indicate the sort of monetary paths that are likely

to be consistent with policy objectives.

82. The discussion on the PSBR path should separate the medium-term PSBR target from the speed of the adjustment towards it. Relevant to the medium-term question are:

- the need to reduce real interest rates
- whether the downward trend in the ratio of public sector debt to money GDP will continue and, if so, at what rate
- the low level of net capital expenditure, resulting in part from the high level of asset sales
- the fact that North Sea revenues are near their peak
- the rise in future pension commitments

The issues that should be taken into account in deciding the speed at which the PSBR is to be moved down include:

- the stage of the cycle
- the lags in the response of money GDP and inflation to fiscal policy
- the pattern of North Sea oil revenues
- the pattern of asset sales
- the room for manoeuvre on fiscal policy in 1984-85 and 1985-86.

ANNEX A

COMPARISON OF MTFS FIGURES WITH OUTTURN

GDP/deflator (market prices)

% changes	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS		19.5	12.1	8.2	7.5
1981 MTFS			10.8	8.0	7.2
1982 MTFS(1)				7.3	6.9
1983 MTFS(1)					5.4
Latest estimate	16.8	18.6	10.0	6.7	5.2

(1) Annual projections of the GDP deflator were given in 1982 and 1983 MTFS, but nothing in earlier years.

RPI(2)

% changes	1980 Q4	1981 Q4	1982 Q4	1983 Q4
1980 MTFS	16.5	10.2	8.7	7.5
1981 MTFS		10.2	7.5	7.4
1982 MTFS			9.0	7.1
1983 MTFS				5.8
Latest estimate	15.3	11.9	6.2	5.1

(2) Not published in MTFS; 18 month ahead forecasts given in short term prospects.

Money GDP (Market prices)

% changes	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS		17.1	12.0	9.6	10.7
1981 MTFS			10.5	9.6	9.7
1982 MTFS(3)				9.7	9.7
1983 MTFS(3)					7.9
Latest estimate	19.9	13.7	9.7	9.2	8.3

(3) Annual money GDP projections were given in 1982 and 1983 MTFS, but not in earlier years.

Real GDP(4) (factor cost)

% changes	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS		-2.2	-0.2	+1.4	+2.8
1981 MTFS			- 0.4	+1.3	+2.3
1982 MTFS				+1.7	+2.6
1983 MTFS					+ 2.4
Latest estimate	+2.6	-4.1	-0.1	+2.3	+2.8

(4) Projections for real GDP at factor cost have been given in all published MTFS. However the annual path has not been made explicit and an average figure has always been given.

£M3 (5)

% changes	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS		9.4	8.0	7.0	6.0
1981 MTFS			8.0	7.0	6.0
1982 MTFS				11.6	9.2
1983 MTFS					9.0
Latest estimate	11.5	21.2	12.0	11.5	10.0

(5) Illustrative ranges for £M3 were published in all MTFS. The figures for the outturn are on a mid-April to mid-April basis, MTFS figures are Q1 on Q1.

M1 (6)

% changes	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS		16.8	17.5	0.8	9.0
1981 MTFS			14.1	14.8	14.5
1982 MTFS				10.8	13.4
1983 MTFS					11.8
Latest estimate	3.3	12.4	3.9	14.9	12

(6) Illustrative ranges for narrow measures of money were published in the 1982 and 1983 MTFS. These were the same as for broad money though the text made clear that higher numbers were possible as inflation and interest rates came down.

General Government Expenditure[7]
(including interest payments)

% of GDP	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS	44.9	45.6	44.5	42.9	41.5
1981 MTFS			47.7	46.1	43.9
1982 MTFS				47.0	45.0
1983 MTFS					46.4
Latest estimate	43.5	46.1	46.5	47.3	45.7

General Government Receipts[7]
(including interest receipts, before fiscal adjustment)

% of GDP	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS	39.6	41.3	41.4	42.0	41.5
1981 MTFS			43.1	43.2	42.7
1982 MTFS				43.4	42.3
1983 MTFS					43.3
Latest estimate	38.4	40.2	43.1	43.6	42.1

(7) Annual figures. General government expenditure and receipts and money GDP were both published in 1982 and 1983 MTFS. In 1980 and 1981 MTFS levels of government expenditure and receipts were given in cost terms. In addition figures for public expenditure as a proprtion of GDP in first and last years of the MTFS were given in 1980, 1981, 1982 MTFS.

PSBR as a proportion of GDP[8]

	1979-80	1980-81	1981-82	1982-83	1983-84
1980 MTFS	4¾	3¾	3	2¼	1½
1981 MTFS			4¼	3¼	2
1982 MTFS				3½	2¾
1983 MTFS					2¾
Latest estimate	4.8	5.6	3.4	3.3	3.4

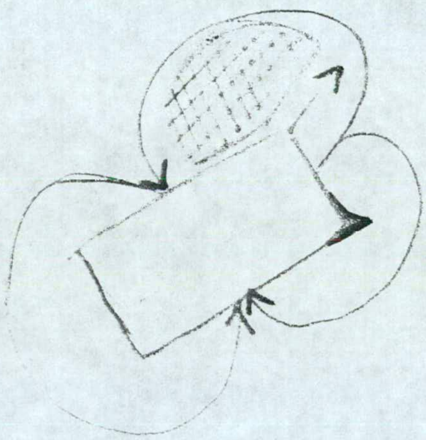
(8) Projections of the PSBR ratios have been given in all MTFS.

ANNEX B

EQUIVALENT PSBR FIGURES AND RATIOS

£ billion

% of GDP	1984-85	1985-86	1986-87	1987-88	1988-89
1	3.3	3.5	3.7	3.9	4.1
1¼	4.1	4.3	4.6	4.8	5.1
1½	4.9	5.2	5.5	5.8	6.1
1¾	5.6	6.1	6.4	6.7	7.2
2	6.5	6.9	7.3	7.7	8.2
2¼	7.3	7.8	8.3	8.7	9.2
2½	8.1	8.7	9.2	9.6	10.2
2¾	9.0	9.5	10.1	10.6	11.2
3	9.8	10.4	11.0	11.6	12.3



CONFIDENTIAL

Could you send this lot back again tomorrow, to get in final order?

From: SIR PETER MIDDLETON
Date: 11 January 1984

PSt let me have my original set of papers, too. (Useful scribbles). (Return)

Done. See also the new (Battishill) annotated agenda, below. We await only the Burns LTPE, Cassell TA+/NIC, Monger PAS, Airey + Fraser Tax Reform Strategy Stuff

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Terence Burns
Mr Bailey
Mr Littler
Mr Cassell
Mr Ridley
Mr Lord
Mr Portillo
Mr Battishill
Sir Lawrence Airey IR
Mr A Fraser C&E
Mr Kerr

The pps listed at (b) are all below — and all your Ministers have all of them tonight.

CHEVENING

Those attending this weekend's informal discussions should receive, in the course of today:

... (a) A red booklet (attached) which sets out starting, finishing and meal times during the weekend - as well as various other pieces of information about accommodation and travel etc. We assemble at 12.00 pm on Saturday for drinks before lunch and should be away by about 14.00 on Sunday after lunch.

(b) The following papers.

(i)	The FSBR: Handling the PSBR	- Central Unit
(ii)	The Policy Background to the MTFS	- Sir T Burns
(iii)	Personal Borrowing	- Mr Cassell

CONFIDENTIAL

(iv) Tax Issues - Mr Cassell

(v) Assets and Public Expenditure. - Mr Bailey & Sir T Burns

2. Later in the week the Central Unit will circulate:

(vi) an annotated agenda for the discussions.

3. And on Friday there will be some additional material on:

(vii) public expenditure.

4. In addition, those attending might find it useful to have with them:

(viii) Last year's FSBR;

(ix) Last year's Autumn Statement;

(x) Part I of the draft Public Expenditure White Paper (for the second day).

5. The Saturday Session lasts from about 2.30 pm until dinner and resumes for a spell after dinner. The two key papers for this are paper (ii) - The MTFS and paper (iv) - Tax Issues. Paper (i) - The FSBR can probably be dealt with early on in the discussion, and reference will be made to the paper (iii) - Personal Borrowing and paper (v) - Assets and Public Expenditure in the course of the first day's discussion.

6. On more domestic matters, the dress for the conference usually reflects its informal nature, but with Lounge Suits (short dresses for the ladies) for dinner on Saturday. I suggest the same on this occasion. Bathrooms are shared in one or two cases, so dressing gowns are a wise precaution.

7. Any further enquiries about the weekend can be answered by this office.

PEM

P E MIDDLETON

The travel instructions did not come out clearly in the red booklet, so a more readable version is attached PEM

CC. Sir P Middleton

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

16 January 1984

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Geoffrey

I really am most grateful to you for letting us have the use of Chevening for the Budget seminar last weekend. In these very congenial surroundings we got through a great deal of work, entirely undisturbed, and it seemed that everyone enjoyed themselves. I congratulate you on inventing the seminar, and the idea of holding them at Chevening, and I hope that the series will be able to continue in the future.

I have of course written to General Graham, but I should be grateful if your office could let him know that I meant all I said. Perhaps they could also pass on my thanks to Ann Hutchinson for all her help.

I am so sorry that our visit meant you couldn't have George Shultz down there yesterday. But isn't Chevening much too nice to waste on Americans?

Yours ever
Nigel

NIGEL LAWSON

cc Sir D Middleton

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

16 January 1984

Major-General J D C Graham CB CBE
Chevening House
SEVENOAKS
Kent TN14 6HG

Dear General Graham

On behalf of my wife and myself, and all who took part in last weekend's seminar at Chevening, I write to thank you for the admirable arrangements made for us. I had not visited Chevening before, but I hope very much that I shall again next year; and I should be grateful if you would pass on my thanks to all who worked so hard to ensure the success of the seminar.

Yours sincerely
Nigel

NIGEL LAWSON

BSP

TELEPHONE: SEVENOAKS 454091

THE ADMINISTRATIVE TRUSTEES
OF THE CHEVENING ESTATE

DONOR: THE 7TH EARL STANHOPE, K.G.

SECRETARY: MAJOR GENERAL J. D. C. GRAHAM, C.B., C.B.E., (RTD.)

ESTATE CLERK: MRS. B. E. DUNCAN

ESTATE OFFICE,
CHEVENING,
SEVENOAKS,
KENT. TN14 6HG

1. cc. Sir P. Middleton
Mr Gilmore. 20/1
~~2. [illegible]~~
2. Chancellor

The Rt.Hon. Nigel Lawson,
Treasury Chambers,
Parliament Street,
LONDON, SW1P 3AE.

18th January, 1984.

Donna for folder

Dear Chancellor,

Thank you so much for your letter of 16th January concerning the arrangements we made here for the visit of yourself, your colleagues and your wives to Chevening this past weekend. Your kindness in so writing is greatly appreciated by the members of the Chevening team and myself: we greatly enjoy these annual Treasury seminarial visits and much hope that they will continue, should it be your wish that they do so.

With kind regards.

Yours sincerely:

[illegible signature]

From: MISS E A CLARKE
Date: 2 February 1984

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Minister of State
Sir T Burns
Mr Littler
Mr Bailey
Mr Battishill
Mr Ridley
Mr Lord
Mr Portillo
Mr Cassell
Mr Scholar

PRESENTS FOR CHEVENING STAFF

Just to let you know that the six Chevening ladies and also Ann Hutchison have each been given a 1 lb box of Black Magic (wrapped in tissue paper!) for their efforts in making the weekend a success, together with a card signed by the Chancellor on behalf of participants.

2. You will be pleased to hear I shall not be coming round to collect any more money from you as Chevening costs worked out slightly cheaper this year than last.

E A Clarke

MISS E A CLARKE
Assistant Private Secretary

11 DOWNING STREET
WHITEHALL SW1A 2AB

17 February 1984

To: J O Kerr

You will want this for your file.

Mrs Lawson

PWP

Mrs Lawson has her own copy now.

B.

Donna

~~[illegible]~~ Pl. dig out the letter.

N Pl. give me a copy of yr letter immed.
12/2
T

DJ

JOK: PSU
JW
N..

TELEPHONE: SEVENOAKS 454091

THE ADMINISTRATIVE TRUSTEES
OF THE CHEVENING ESTATE

DONOR: THE 7TH EARL STANHOPE, K.G.

SECRETARY: MAJOR GENERAL J. D. C. GRAHAM, C.B., C.B.E., (RTD.)

ESTATE CLERK: MRS. B. E. DUNCAN

ESTATE OFFICE,
CHEVENING,
SEVENOAKS,
KENT, TN14 6HG

The Rt. Hon. Nigel Lawson,
No. 11 Downing Street,
Whitehall,
LONDON, SW1A 2AB.

7th February, 1984.

Dear Chancellor,

On behalf of my wife, Rosemary, and all her colleagues on the "Chevening Team" I do thank you most warmly for your card and the boxes of Black Magic which reached us here yesterday. Greatly appreciated they were by all the girls - and by those of us invited to share their chocolates - and another happy reminder of your visit last month. I hope there will be more of the latter.

With my best wishes to you and your wife.

Yours sincerely:

John Graham

John,
Ch/Ex didn't write a letter as such — he did send a thank-you card (no copy kept)
David

~~No~~ — he sent a letter, immediately after Chevening
J.

Sorry! — now attached
David

Donna.
For dsx to Mrs Lawson.
J.