

SENIOR STAFF IN CONFIDENCE

PRIME MINISTER

SIR ALAN WALTERS

Besides his article in the Independent, Alan Walters has given, in the last two days, a radio interview and two television interviews. His intention has been wholly well disposed. But I suppose inevitably the mischievous press have been using his words to revive the old story that there is a rift between you and the Chancellor on economic policy. (We are separately putting into your box some briefing material for Questions tomorrow.) I have spoken to Alan this evening. I said that the press were clearly intent on causing mischief and in these circumstances, it would be better if he were to avoid making any more public pronouncements on British economic policy. Now that the press were assuming that he was going to return here, everything he said would be invested with particular importance, its meaning scrutinised for nuances and mischief makers would do all they could to cause trouble. He readily took the point and said that he would stop forthwith.

The Chancellor has made clear to Robin Butler that Alan's remarks have annoyed him, so much so that he is now saying that he thinks that he could not work with Alan if he were to return. The Chancellor may want to talk to you about this. Robin and I hope that all this will blow over, provided Alan does not make further public comment.

N. L. W.

N. L. WICKS
18 July 1988



FILE
JA

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From the Principal Private Secretary

SIR ROBIN BUTLER

SIR ALAN WALTERS

I spoke to Sir Alan Walters.

I explained to Alan the problems which his television and radio interviews were creating. I said that the media were assuming that he would be returning to No.10 as the Prime Minister's adviser. His remarks were therefore being scrutinised carefully by political commentators, and I was sure the Opposition. We were having to forearm the Prime Minister in case his comments were used in an attempt to embarrass the Government at PQs tomorrow. I went on to say that in these circumstances I was sure that it was right for him to avoid any public statement, both written and broadcast, about the UK economy.

Alan immediately said that he had given another interview, which he thought was about to appear on Channel 4 News. It did, some 10 minutes after our conversation. He readily undertook, in view of the background that I had described, to "stop forthwith" any further comment on British economic policy.

Twenty minutes after the Channel 4 broadcast Alan telephoned to ask what I had thought of it. He emphasised that it had been given with the best of intentions. I said that Channel 4 had given it an unhelpful spin, and had tried to resurrect the story of differences between the Prime Minister and the Chancellor. Alan again repeated that he would stop forthwith any further comment on British economic policy; indeed he had just refused to write a piece for the Daily Mail. He said that he had written an article on international economic co-ordination. He did not think that this would cause any difficulty, but would send me a copy.

N.L.W.

(N.L. WICKS)

18 July 1988

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JETS BATTLE OVER THE GULF

Raids in run-up to the ceasefire

IRAQI jets raided Iranian factories and aircraft from each side clashed over the Gulf today only hours after Tehran said it had accepted a United Nations ceasefire order in the bloody eight-year Gulf War.

The Iraqi attack near the Iranian town of Ahvaz followed Iran's acceptance of a UN Security Council resolution calling for an immediate halt to hostilities and a withdrawal to international borders by both sides.

Sir Alan's new dig at Lawson

SIR Alan Walters, Mrs Thatcher's economic guru, drove the knife in again today to Chancellor Nigel Lawson.

In an interview with the Standard he predicted that Mr Lawson's term as chancellor would soon end. And he attacked as "nonsense" Mr Lawson's policy of linking the pound to other European currencies.

His public attack, for the second time in 24 hours, increased the tension between 10 Downing Street and the Treasury.

City report: Page 21

Tehran said its gunners brought down three Iraqi planes, and that another was downed in a dogfight over the Gulf.

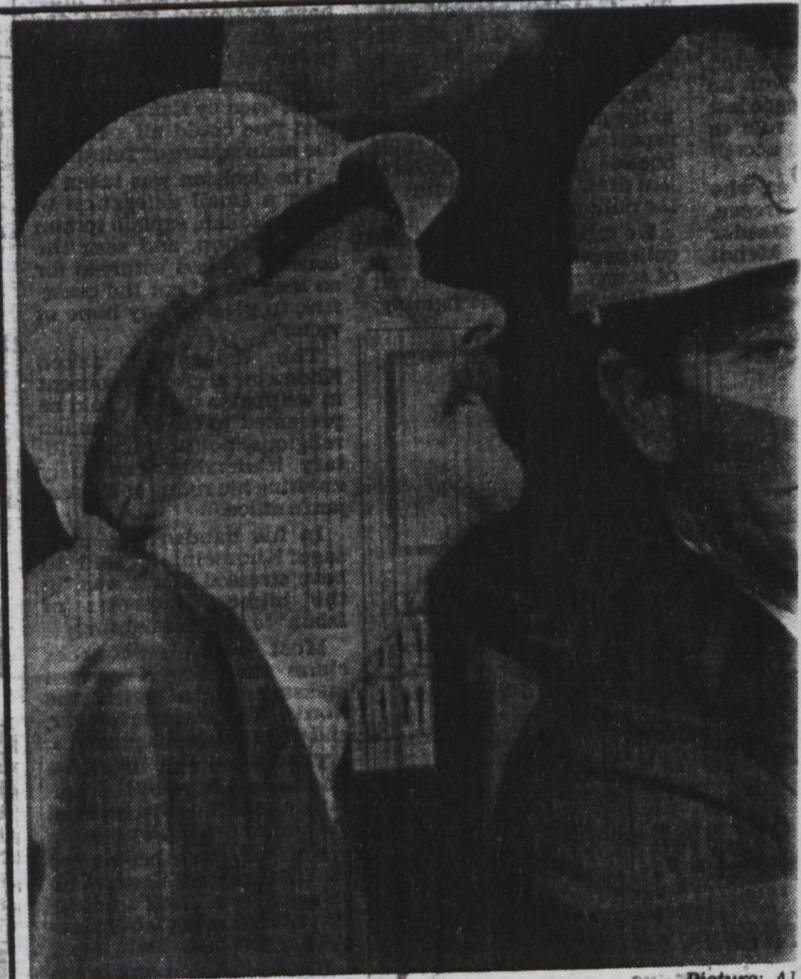
Iraq later countered that its aircraft had shot down an Iranian jet during the dogfight, and a second in an attempted raid on the northern Iraqi oil centre of Kirkuk.

UN Secretary General Javier Perez de Cuellar said in New York that he hoped the ceasefire would go into effect within a week to 10 days.

An initial monitoring team of about 10 officers would spearhead a 250-strong UN truce force, he said.

In Tehran, residents greeted news of their government's acceptance of the

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Picture: AL
NOT HIS DAY: Charles tries his hand at demolition under Len Maho

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1 Right wing
2 Major for deals
3

PROFESSOR SIR ALAN WALTERS - INTERVIEW ON POSSIBLE RETURN AND INTEREST RATES

Transcript from: ITN, News at One, 18 July 1988

INTERVIEWER: (.....) Sir Alan, what do you make of the need in what is supposed to be a booming economy of having to rein in as hard as this, 6 movements in 6 weeks on interest rates?

WALTER: Well in my view the policy is now correct. We're getting back to about the level of interest rates we should have retained some few months ago.

INTERVIEWER: You say it is now correct but what's been wrong to cause this problem?

WALTER: Well I don't know, I don't think, you could call it wrong. On the contrary, I mean everyone has been insisting on the Chancellor going in to - or the Chancellor and Mrs Thatcher, going in to the European monetary system. Now what happened was that the Chancellor as it were experimented with going into the European monetary system when he shadowed the deutchemark and kept the deutchemark at about 3. And what happened was of course he had to reduce interest rates in Britain to stop sterling appreciating against the deutchemark. So interest rates went down a few months ago to 7 1/2% and in my view that was too low.

INTERVIEWER: Well now how serious a mistake was that, what are the long term consequences going to be of that?

WALTER: I think what's going to happen while there's also other mistakes been made as we engaged in the Louvre Accord. But my own view is that the long term results needn't be at all important. What we're going to see is a period where we have to atone with these higher interest rates for the lower interest rates we enjoyed a few months ago. Fundamentally though this is of course the fruits of success. I

mean the economy is growing at a splendid rate . Although inflation seems to be rising I mean it's nowhere near the panic level, nowhere near the levels at which one should take any drastic action.

INTERVIEWER: On the other hand Sir Alan, I'm sorry to butt in, but it is said that you are considering coming back or others are considering having you back to No 10. That might suggest that you are being brought back to apply the brakes?

WALTER : Oh that's nonsense. This is press and media speculation which is utter nonsense.

INTERVIEWER: Nonsense that you're coming back or nonsense that you would be applying the brakes?

WALTER: Well first it's nonsense that I've agreed, or there's agreement, that I come back, there isn't yet. But secondly, to apply the brakes drastically in my view now would be very silly. There's no situation that is of a crisis dimension that calls for that. What it calls for is some tightness, some tightening

INTERVIEWER: Sir Alan, thank you very much.
