

SUBJECT.



10 DOWNING STREET

THE PRIME MINISTER

26 March 1980

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 66/80

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LPS

Thank you for your message of 14 March about your economic policy decisions. I am grateful to have had advance notice of these important measures.

I share your conviction that we must give overriding priority to getting inflation down. I know how difficult the decisions can be in this field. I therefore appreciate very much your determination in taking these painful, but necessary measures. Your resolute actions will give encouragement and support to other governments who are grappling with similar problems, and contribute greatly to the restoration of a more stable world economy. Geoffrey Howe made a point of including a favourable reference to your measures in his budget speech earlier today.

I particularly welcome the action you have taken to reduce gasoline consumption. This will be a signal contribution to our common efforts to reduce oil consumption and dependence on oil imports. I agree that reductions in domestic demand for oil must be part of a wider pattern. We shall readily join with you in developing appropriate concerted or national action, when this is discussed internationally. I believe that, for this year at least and possibly beyond, market forces are likely to maintain a reasonable balance between supply and demand for oil and our preference is to allow them to do so. Nevertheless, we must keep a careful watch on the situation, in case further action is needed. I expect that the next Ministerial meeting of the International Energy Agency will consider these matters, but I hope they will look at longer term measures rather than concentrate primarily on the short term.

/I hope

I hope we can keep in close touch on both economic and energy policies. Geoffrey Howe is writing to Bill Miller separately about the contents of his budget.

(SGD) MARGARET THATCHER

The President of the United States of America.

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Foreign and Commonwealth Office

London SW1A 2AH

26 March 1980

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Hunt 26/3*

Dear Richard,

US Economic Policy

Your letter of 14 March to John Wiggins enclosed a message from President Carter to the Prime Minister giving advance notice of his anti-inflation package. The Treasury have suggested that we should coordinate a suitable reply.

Oil Import Ceilings

Apart from a description of the measures, the only point of substance in the message is a request for support in seeking tight oil import ceilings for 1981 to which the Department of Energy wish to reply.

Assessment of the Measures

The Treasury's preliminary assessment of the measures is that the Carter Administration has been forced into them by continued high inflationary expectations in the United States combined with doubts about the credibility of the earlier budget proposals. They are probably what the situation now requires, but there is a risk that they may be too severe. Apart from their effect on expectations, the measures will fall mainly in 1981. If a budget deficit of \$40 billion is indeed to be brought down to close to zero (and particularly if this should coincide with an increase in the Domestic Savings Ratio) this could exacerbate the expected weakening of the US economy in 1981. Perhaps for this reason, the Administration have subsequently left open the possibility of a tax cut next year.

Reactions to the Package

The measures have had a mixed reception in the United States. The budget cuts have been criticised as illusory and the 'gasoline conservation charge' has been attacked as inflationary. Internationally, the only official reaction of which we are aware is a statement by Count Lambsdorf that the measures 'seem capable of fighting effectively against inflation in the US'. Informal soundings

/in Bonn

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in Bonn indicate that the Germans are privately doubtful about congressional acceptance and wonder also whether the package will have sufficient effect on inflationary expectations.

You will be aware that the Americans have asked that Summit countries should 'not be bashful' in stating publicly their approval of these measures (paragraph 8 of Washington Tel No 1107). Neither the Prime Minister nor the Chancellor have been questioned in the House of Commons about the American measures but we have suggested the inclusion of a suitable reference in the Budget speech.

/ I enclose a draft reply, agreed with the Treasury and the Department of Energy.

I am sending copies of this letter to John Wiggins, Bill Burroughs (Department of Energy) and David Wright (Cabinet Office).

Tom
GD

(G G H Walden)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
London

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Registry
No.

DRAFT

LETTER

Type 1 +

SECURITY CLASSIFICATION

Top Secret,
Secret.
Confidential.
Restricted.
Unclassified.

To:-
President Carter

From
The Prime Minister
Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

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