Park

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Begins: ~~9/7/82~~. 18/2/82.
Ends: ~~27/8/82~~. 2/8/82.

PO -CH /GH/0076

PART A

Chancellor's (Howe) Papers:

HIRE PURCHASE CONTROLS

Disposal Directions: 25

26/7

PO -CH /GH/0076
PART A

JH 281

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

18 February 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

MOTORING TAXES AND HP CONTROLS

I welcome the opportunity that our officials had to discuss motoring taxes in December and I know that several detailed points have been put to the Treasury by officials of this Department. Having seen Nigel Lawson's letter to you of 29 January on which he discusses, inter alia, the levels of derv and petrol duties, and David Howell's letter of 2 February about motoring taxes generally, I should like to explain my own position on these questions.

2 As you know only too well from our discussions about BL's 1982 Corporate Plan and about car prices, the UK motor industry has been having a very difficult time in the recession, exacerbated by relatively low (though sharply improving) productivity and sterling's real exchange rate. Recovery of the industry's fortunes, particularly in the commercial vehicle market, is fragile. It would therefore be most unfortunate if you had to take measures in the Budget which directly or indirectly damaged the industry. I have in mind not only decisions on car tax, VED and fuel duties, but also the wider tax treatment of purchases of vehicles and fuels, since all can have significant secondary effects on demand for the UK motor industry's products.

3 Turning to specific measures, the SMMT has proposed to you that car tax should be cut to 5%, as a first step towards its abolition and that motor caravans should be taken out of tax. Bearing in mind my general wish to see a Budget which concentrates benefits on industry rather than the personal sector, I am not sure that I would see this as a priority. But I would firmly oppose any adverse change in the rate or scope of car tax.

4 On vehicle excise duty, our officials have discussed the implementation of VED restructuring for commercial vehicles. I

We need to say to in speech

welcome the intention to introduce this in a way which allows time for any particularly affected sectors to adjust to the new structure. I note that light commercial vehicles are now to be taxed at the same rate as cars. I welcome this as a measure which will benefit the smaller firms who tend to buy these vehicles and also help a particularly hard-pressed sector of the commercial vehicle industry.

5 I have considered carefully the arguments about the differential between the rates of duty on petrol and derv, recognising on the one hand the benefit to industry of favouring derv and on the other the long-established concern that this might prematurely stimulate demand for diesel-engined cars, which the UK industry does not yet supply. My view is, like Nigel Lawson's and David Howell's, that a differential in favour of derv should be maintained as a feature of the fiscal system, though I would myself lay greater stress on the relative benefits to industry and commerce than on any additional incentive to energy conservation.

We might say something energy re this?

6 The UK motor industry is, as Nigel Lawson indicates, well advanced in its plan for diesel-engined cars: Ford are expected to have a diesel version of their Cortina replacement, the Sierra, early in 1983, and BL should have diesel versions of the Rover this year and Jaguar in 1983. But at present we do not expect a diesel-engined volume car (in the LM series) to be available from BL until early 1985. There is therefore a fine balance to be struck between encouraging the manufacturers, and encouraging demand - which is of course expanding anyway - too soon, to the benefit only of importers. For the moment, while UK-supplied volume diesel cars are still unavailable, I should not wish to see the differential widened to such an extent that there was a major immediate change in the respective economics of diesel-engined and petrol-engined cars. But I think that would not happen with the limited widening proposed by Nigel Lawson and in the interests of industry generally I would support his proposal that derv might be rather less than revalorised - or, if duty yield had to be raised in real terms, that this should come from petrol alone.

7 Nigel further suggests that the Budget statement should make clear our intention to maintain a petrol/derv differential. I would not oppose a fairly neutral statement of this expectation, though again I should much prefer the stated reason, if there is to be one, to be the fact that a very much higher proportion of diesel usage is in industry and commerce.

8 On the wider tax front, I should refer to the possibility of "blocking" VAT on road fuels. While I appreciate that disallowing

the deduction of VAT on fuels for business use could raise significant revenues, it follows that it would amount to a substantial addition to industry's tax burden and therefore hardly be consonant with the general Budgetary approach which I have recommended. I can see no justification for blocking VAT on industry's transport costs. Though on petrol (not derv) there may be some leakage to employees' private use, this cannot alter the fact that massive amounts of petrol are, like derv, used in industry and commerce for proper commercial purposes - perhaps especially by the smaller firm which uses light vans, most of which are still petrol-driven. VAT blocking would be seen by the small business sector as totally contrary to the general thrust of our small firms policy.

9 Lastly the SMMT have returned to the proposal that hire purchase controls on cars should be relaxed. I know that the then Financial Secretary did not feel able to support this idea last year, on the grounds of its effects on monetary aggregates and the allegedly wrong signal it could give about the Government's monetary stance. I do not feel that these arguments would really stand up today. The HP controls are scarcely policed and probably widely disregarded. But to the extent that their relaxation on cars could have a once-for-all effect on the car market, the SMMT are presumably right to suggest that much of the monetary effect would be offset by changes in stock financing. As to the "signal", I really believe we should have no difficulty presenting action on cars as removal of an outmoded control which discriminates for no sound reason between cars and other goods, and which neither has a substantial effect on monetary aggregates, nor signals more than it says. This would particularly be so if the change were announced in your Budget, where the Government's monetary stance will surely be judged as a whole. I commend such a relaxation to you, at least to levels consistent with other goods.

10 I am copying this letter to David Howell and Nigel Lawson, and because of his interest in hire purchase controls to John Biffen.

Yours ever

Patrick

FROM: C D HARRISON
19 February 1982

pwr

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Burns
Mr Quinlan
Mr Middleton
Mr Battishill
Mr Burgner
Mr Dixon
Mr Kemp
Mr Ridley
Mr Harris
PS/Customs & Excise

MOTORING TAXES AND HP CONTROLS

The Economic Secretary has seen the letter of 18 February from the Secretary of State for Industry.

He would be very much against the proposal in paragraph 9 to relax hire purchase controls on cars.

CDH

C D HARRISON
Private Secretary

From: N J ILETT
Date: 23 February 1982

MR MONCK

2. CHANCELLOR OF THE EXCHEQUER

cc for: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(L)
Sir Douglas Wass
Mr Burns
Mr Ryrie
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Ridley
Mr French
Mr Harris

cc Mr Dixon
Mr Lovell
Mr Pirie
Mr Turnbull
Mr A C S Allan
Mr Andren

HIRE PURCHASE CONTROLS

The Secretary of State for Industry's letter of 18 February recommends that hire purchase controls on cars be relaxed. We recommend you agree. As HP controls on cars are essentially a special case of a wider argument, this submission also considers whether the time has come to add HP controls to the Government's bonfire of unnecessary controls. Bank of England officials agree with the thrust of this submission but there has been no time to discuss it with them in detail.

BACKGROUND

Coverage

2. HP controls on cars require an initial deposit of 33⅓% and repayment within 2 years. Controls on other goods (eg. domestic appliances, televisions) require a deposit of 20% and repayment within 2½ years. Yet other goods (eg. furniture, motorbicycles) are not subject to HP controls.

Enforcement

3. The Department of Trade exercise the relevant powers. The last Labour Government abolished virtually all the enforcement machinery in that Department, to save staff. At present 3 DoT officials devote part of their time to policy and enforcement. They can only look at outrageous violations of the regulations, and then only cursorily. The fact that there are many other ways of obtaining credit quite legally undermines the control further.

ARGUMENTS AGAINST

4. Statutory powers to control credit for economic management purposes (as opposed to consumer protection) extend only to hire purchase agreements. They do not cover bank, or other, loans for the same purpose, as those concerned are well aware. We rely on Bank of England guidance to block this alternative route. This guidance invites lenders not to make finance available on easier terms than would be allowed for hire purchase deals.

5. The Finance Houses Association and other representative organisations regularly complain that the Bank's guidance is not always followed. Specifically, bank managers turn a blind eye, with or without hints. In any event, bank managers have little control over the way money is actually used.

6. There are other ways of obtaining credit; credit cards, automatic overdraft and loan facilities now being offered to "selected" customers by some banks, store credit facilities etc. The growth of these alternatives has eroded HP controls since their heyday 20 years ago.

7. In the nature of things, the evidence on avoidance is largely anecedotal, but the Bank report that the volume of complaints is increasing. Finance houses say they are losing business by complying with the regulations and the Bank's guidance.

8. In short, hire purchases controls are:

1. Discriminatory,
   - in their coverage
   - in their effect on consumers (they bear heaviest on people who lack the sophistication to get round them).

This point was made by the Crowther Committee on Consumer Credit in 1971.

2. Barely policed (as Mr Jenkin points out).

3. Easily, and quite legally, avoided.

ars

8. The arguments about cars are the same, but more so, given the harder terms. In short,

1. particularly discriminating, for no obvious reason.

2. industrially damaging; especially given the increase in car prices over the past few years is now a large sum.

3. avoidable on the grand scale (the Bank's recent specific guidance on mortgages seeks to cover one loophole).

9. IA take the view that a relaxation of hire purchase controls on cars would be most likely to directly affect sales at the cheaper end of the second-hand car market. While this effect would not be massive it could have a useful impact in helping to harden trade-in prices through the whole spectrum of the market, thus eventually encouraging some increase in sales of new cars.

10. UK manufacturers hold about half the car market and any improvement in sales would likely to benefit them in this proportion. The effect on BL would be particularly welcome - in contrast to the position some years ago when they opposed an easing of HP controls on the grounds that BL was not then ready to meet any upsurge in domestic demand. This is no longer the case. They have two good volume cars available in the Metro and Acclaim and stocks are high. Moreover, BL have reversed the earlier trend decline in their market share which is now slowly increasing. They might expect to get at least 20 per cent of any increase in sales resulting from a relaxation of HP control, some of which would be at the expense of imported cars. A further advantage is that easier HP controls may help to choke off some of the pressure to import cars from European dealers. This is because an improved trade-in price should encourage buyers to go to dealers in this country.

REASONS FOR MAINTAINING HP CONTROLS

11. Although conscious of the weakness of HP controls, we have defended the existing position with two main thoughts in mind:

1. The risk of giving a wrong monetary signal to the markets.

2. The possible need for quantitative controls on consumer credit, which (however unsatisfactorily) would have to be built to some extent around statutory HP controls.

8. The arguments about cars are the same, but more so, given the shorter terms, and more.

i. particularly discriminating, for to obvious reason.

ii. Industrially damaging, especially given the increase in car prices over the past few years, it is not a large one.

iii. Available on the grand scale (see Hull's recent specific guidance on mortgages needs to cover one locomotive).

9. If take the view that a relaxation of hire purchase controls on cars would be most likely to directly affect sales at the cheaper end of the second-hand car market. While this effect would not be massive it could have a tangible impact in helping to burden trade-in prices even on the whole spectrum of the market, thus eventually encouraging more turnover in markets of new cars.

10. UK manufacturers hold about half the car market. And any improvement in sales would likely benefit them in this proportion. The effect on HM would be particularly welcome - in contrast to the position some years ago when they proposed an easing of HP controls on the grounds that HM was not then ready to meet any massive domestic demand. This is no longer the case. They have two good volume cars available in the Astra and Accolaim and stocks are high. Moreover, HM have reversed the earlier trend certain in their market share which is now slowly increasing. They might expect to get at least 20 per cent of any increase in sales resulting from a relaxation of HP control, some of which would be at the expense of imported cars. Authorities acknowledge in their Annual HP consultancy hole to shake off some of the pressure to import cars from Euro-car dealers. This is because an improved trade-in price should encourage buyers to go to dealers in this country.

REASONS FOR MAINTAINING HP CONTROLS.

11. Although conscious of the weakness of HP controls, we have defended the existing position with two main arguments in mind:

i. The risk of giving a wrong monetary signal to the markets.

ii. The possible need for unpalatable controls on consumer credit, which (however inequitably) would have to be built to some extent around existing HP controls.

On the signal, much would depend on presentation. Relaxation or abolition of controls could be justified as the removal of another ineffective and outdated restriction. Abolition would not be inconsistent with monetary policy because the latter aims at the price of credit, whereas HP controls are a (disruptive and incomplete) form of credit rationing and direction.

13. It is impossible to be entirely confident about the monetary consequences. We suspect however that the controls are already so ineffective that the impact would be minimal. What would be likely is that hire purchase activity would recover some ground from other forms of consumer credit. Instalment credit lending to persons by finance houses has risen by 8% over the past year, as against 32% for bank lending to consumers (50% if mortgages are included).

14. The effect of a relaxation on cars only would be correspondingly less.

15. The option of quantitative controls was rejected by Ministers in October, when it became apparent that lending to persons was rising rapidly and that the monetary target would be overrun. We still have a contingency plan for such controls on the stocks. This includes the tightening of all HP controls to the level of the present control on cars.

16. It seems unlikely Ministers would wish to reverse their October decision; but the more HP controls are relaxed now, the harder it would be politically to justify any future resort to quantitative controls.

17. The implication of the monetary consequences is that abolition would have no more than a marginally stimulative effect. However, any stimulus would be channelled towards the consumer goods industries, which are fairly depressed. Unfortunately, UK producers in this area are not particularly competitive. We have to recognise that some of the benefit would go to foreign manufacturers.

CONCLUSION

18. We believe you can safely grant Mr Jenkin's request for a relaxation "at least to levels consistent with other goods" in the HP control on cars now.

19. More fundamentally, HF consider that the time may have come to abolish HP controls altogether, as ineffective and alien to the Government's philosophy. The monetary consequences, while not easy to assess precisely, are unlikely to be substantial. There should be political advantages in a further "bonfire". We do

9. On the *other*, they would decide on prematurely. Relaxation or abolition of controls could be justified as the removal of ineffective testing and outdated restrictions. Modification would not be forthcoming unless current policy overtaken the latter aims at the price of credit, whereas HP controls are a (disruptive and inconvenient) form of credit rationing and discretion.

10. It is impossible to be dogmatic or confident about the monetary consequences. We suspect however that the controls are strongly ineffective that the impact would be minimal. What would be likely in that case purchase activity would recover some ground from other forms of consumer credit. Instalment credit lending to persons by finance houses has risen by 6% over the past year, as against 3% for bank lending to consumers (6% if mortgages are included).

11. The effect of a relaxation on rate only would be correspondingly less.

12. The option of *quantitative controls*, was rejected by Ministers in October. Now it became apparent that legislation to permit was relaxing legally. We still have a contingency plan for such controls on the stocks. This includes the withdrawal of all HP controls to the level of the present control on cars.

13. It seems unlikely Ministers would wish to reverse their October decision; but the role HP controls are playing and now, the harder it would be politically to justify any future recourse to quantitative controls.

14. The implications of the monetary consequences in that abolition would have no more than a marginally stimulative effect. However any stimulus would be channelled towards the consumer goods industries, which are fairly depressed. However, only HP purchases in this area are not particularly competitive. We have to recognise that some of the benefit would go to foreign manufacturers.

CONCLUSION

15. We believe you may merely grant Mr Gordon's request for a relaxation in the HP control on cars now.

16. More fundamentally, MT consider that the time may have come to abolish HP controls altogether, as ineffective and alien to the Government's philosophy. The monetary consequences, while not easy to assess precisely, are unlikely to be substantial. These should be politically advantageous in a further "boating". We do

ot think the risks sufficient to justify a phased withdrawal of HP controls; in particular, once the present discrimination against cars has been removed, it should not be reintroduced.

20. If you were inclined to consider abolition further, you would presumably wish to consult the Governor, interested colleagues and the Prime Minister. On past form, the Secretaries of State for Industry and Trade would support you, though you may not want to mention the possibility of abolition to Mr Jenkin tomorrow, as more work is needed on some of the implications.

21. Specifically, we would need to assess the consequences for the Bank's directional guidance. We have had no time for this yet. The options are:-

1. To maintain guidance on the level of lending to persons, omitting references to HP restrictions.

2. Simply to ask banks to ensure industry has sufficient finance available, if necessary at the expense of consumers.

3. To abolish general guidance (but not specific guidance on matters such as mortgages). The Bank would like to combine this with specific guidance to the banks against new schemes or advertising ~~[illegible]~~ campaigns for consumer lending over the next 12 months

22. If you wish to make an announcement on HP controls in your Budget speech, urgent work will have to be set in hand now.

N. J. Ilett.

N J ILETT

23 February 1982

1. Our recommendation would be to agree with Mr Jenkin's proposal that the HP terms for cars should be relaxed to the levels consistent with other goods (see paragraph 2) though the Economic Secretary is against relaxation.

2. We think the arguments of substance point to going further and ending the control of HP terms. But there is a presentational argument against doing this (and against withdrawing the Bank's directional guidance) which you will want to consider. The answer to it would be to expose the inequity and ineffectiveness of the HP controls, though this would be more credible if bank lending was under control. I suggest you do not mention this to Mr Jenkin tomorrow but let us know whether you want further urgent work done on it, including consultation with the Bank and other Departments.

S. Wilkes
P.P. N MONCK

IMMEDIATE

CONFIDENTIAL

FROM: C D HARRISON
DATE: 23 February 1982

PRINCIPAL PRIVATE SECRETARY

cc PS/CST
PS/FST
PS/MST(L)
PS/MST(C)
Sir D Wass
Mr Burns
Mr Ryrie
Mr Middleton
Mr Quinlan
Mr Dixon
Mr Kemp
Mr Lovell
Mr Monck
Mr Pirie
Mr Turnbull
Mr A C S Allan
Mr Andren
Mr Ilett
Mr Ridley
Mr French
Mr Harris

To discuss with HP

HIRE PURCHASE CONTROLS

The Economic Secretary has seen Mr Ilett's submission of 23 February.

He believes the HF case is not altogether convincing, because if hire purchase controls have been so extensively eroded by other forms of consumer credit, it is difficult to believe that the abolition of controls on car purchase would have any significant impact on the prospects for the domestic motor manufacturing industry (particularly since at least half the benefit would go to overseas manufacturers).

On the other hand, the Economic Secretary does not believe that the government should entirely ignore the impact that abolition of HP controls would be likely to have on the volume of consumer credit, at a time when the rate of bank lending to the personal sector is already giving considerable grounds for anxiety about its future impact on the growth of the monetary aggregates. While the impact on the domestic car industry might be small, the impact on the growth of the monetary aggregates would be magnified in as much as it was another green light to the banks. If it was deemed inappropriate to abolish HP controls on the motor car industry last year, because of the signal that this might give to the money markets, when the growth of bank credit to the personal sector was much more restrained, then surely there must be stronger reasons for anxiety about such a signal at this time. And the case for going ahead this year is all the weaker now that the outlook for

the level of demand in the economy is brighter than last year.

But if it were thought desirable for reasons of philosophy - which the Economic Secretary does not underestimate - to abolish HP controls on the motor trade, it seems to him that it would be pointless to retain such controls for other forms of HP credit. And if so, it seems to him that it would be best to pass over the existing guidance to the banks in silence.

CDH

C D HARRISON
Private Secretary

To discuss with EST at end of Mosmorran meeting.

Decision: not to do it. PJ

(C Since dictating this I sat next Peter Middleton raised the same point in the margins of a meeting.)

At that rate I incline to take the same line. But let EST - who rightly sees decision: cd I discuss with him?

CHANCELLOR

HIRE PURCHASE CONTROLS

I wonder if the decision taken following the short discussion at the end of the meeting with Patrick Jenkin yesterday may not have been a bit rushed. You said at the meeting that you were fairly sympathetic and that you would consider Mr Jenkin's suggestion further. It is important to be clear that his suggestion was for "a relaxation ... at least to the levels consistent with other goods". The EST's minute gives the impression that he is thinking in terms of complete abolition of the controls.

2. At present the difference in the controls between cars and other goods are:-

a. the minimum deposit for cars is 1/3 instead of 1/5 and

b. the minimum period is 2 instead of 2½ years.

The change would therefore be pretty marginal but it could nonetheless be presented as both a measure benefiting industry and a step in the direction of the removal of an obsolete control. Apparently there is some evidence to show that those who enter into HP agreements to buy motor cars tend for some curious reason to favour the products of British Leyland - so the relaxation could bring some benefit here.

3. My strong inclination would be to take up the Jenkin suggestion, and take credit for it in the Budget speech; but to leave the wider questions raised in the HF minute on the complete abolition of HP controls and the consequential amendments to the banks' guidance for more long-term consideration. I don't think the relaxation to bring cars into line with other goods would give the wrong sort of signals to the markets, particularly if it was presented carefully.

PJ

P S JENKINS

25 February 1982

ANCELLOR OF THE EXCHEQUER

FROM: N MONCK
9 July 1982

cc Chief Secretary
Financial Secretary
Economic Secretary
Ministers of State (R)
Sir D Wass
Mr Burns
Sir William Ryrie
Mr Middleton
Mr Quinlan
Mr Dixon
Mr Lovell
Mr Turnbull
Mr Pirie
Mr Ridley
Mr Hall

As to announcement, I am anxious to build up a (little) stock of things to announce in any economic debate in which I might take part the recess. What are which forecasts or else fact?

HIRE PURCHASE CONTROLS

At yesterday's meeting with the Governor you accepted the case advanced in Lord Cockfield's letter of 28 June that the climate of opinion on monetary affairs is now more favourable to abolishing HP controls than at the time of the Budget and asked us to prepare for an announcement before the Parliamentary recess. You wanted this done on two alternative bases: either with or without simultaneous withdrawal of the Bank of England's general directional guidance.

2. I attach a draft reply to Lord Cockfield. It makes the point that the presentation will be important and I shall be concerting this with the Departments of Trade and Industry as well as with the Bank next week and will submit the results to you. The announcement of abolition would presumably be done by Lord Cockfield in an announced PQ. This might be timed to coincide with or least be near the announcement about National Savings. Although the connection between the two is not all that clear, it would be useful in briefing to be able to refer to the National Savings package as current evidence that the Government was maintaining overall monetary control. In a separate submission to the Economic Secretary I am suggesting that the National Savings package might be announced on Monday 19 July or, failing that, 26 July.

NM

N MONCK

12/7 M. Hyne

CONFIDENTIAL

~~DRAFT~~ LETTER FOR THE CHANCELLOR TO SEND TO LORD COCKFIELD

HIRE PURCHASE CONTROLS

~~Thank you for your letter of~~ You wrote to me on 28 June about HP controls, and ~~which~~ I have discussed your letter with the Governor. I agree with you that the climate of opinion on monetary affairs is now more favourable to abolition than it was at the time of the Budget. It is course always possible that there will be unforeseen difficulties. But, subject to that, I think we should now set in hand the preparations for announcing abolition of the controls before the Parliamentary recess. My officials will be arranging this in consultation with your Department and Patrick Jenkin and, of course, with the Bank.

As I said in March, the presentation will need particular care. There is some conflict between the arguments that the controls are ineffective in macroeconomic terms and inequitable, and the arguments advanced by for example, the motor industry, that relaxation would make a substantial difference to car sales, particularly in August. I think the broad presentation should be that the removal of these discriminatory controls will help to strengthen competition and benefit some specific sectors ~~suffering from it~~, but that abolition is fully compatible overall with maintaining non-inflationary monetary conditions. We shall also need to think through possible implications for the terms of

the Bank of England's guidance to the banks on lending to persons.

I am copying this letter to Patrick Jenkin and to the Governor of the Bank of England.

9/7/82.

ANNEX F

INTEREST RATES AND REMOVAL OF HIRE PURCHASE CONTROLS

Line to take

(i) Interest rates

Share the Secretary of State's view of the importance of achieving low interest rates, both for reducing companies' costs and for improving the climate for investment. In minute copied to Cabinet of 14 July, said that continued downward pressure on interest rates should be a top policy priority. Since then rates have done more than 'drift downwards' (SoS's letter of 13 July): we have achieved further significant reductions (bank base rates down 1½ per cent since late July).

Prospects for further falls depend on domestic monetary developments, in particular the growth of the monetary aggregates and behaviour of the exchange rate, which in turn is influenced by developments in the US. Opportunities for further reductions will be sought so long as we do not thereby endanger the good progress made to date in bringing down inflation, nor jeopardise confidence in our policies.

Prospects for this are good while monetary growth remains within the target range and the exchange rate remains stable.

The recent decline in long-term interest rates is encouraging (e.g. 20-year gilts yield down 2 points since early July). Leading to welcome developments in corporate bond market, beginning with last week's issue of £100 million at 12¼% by BOC.

(ii) Exchange rate

[The S. of S. suggested in letter of 13 July that reductions in interest rates could usefully be accompanied by a modest depreciation in £ EER.]

The principal cause of UK industry's lack of competitiveness is industry's failure to control its internal costs, in particular wage settlements. This problem has to be tackled,

ANNEX F

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The principal cause of UK industry's lack of competitiveness is industry's failure to control its internal costs, in particular wage settlements. This problem has to be tackled,

rather than resorting to manipulation of the exchange rate, with the attendant inflationary risks.

(iii) Hire purchase controls

In agreeing to abolition, went further than S. of S.'s original request. Abolition did pose potential additional strain on monetary targets by possible increase in bank lending, though this effect was not in fact expected to be significant. Not yet possible to judge actual effect, as inextricably combined in August figures of car registrations with effect of new letter, and quarterly analysis of bank lending not yet available. But trade has emphasised change in their advertising.

rather than resorting to manipulation of the exchange rate, with the attendant inflationary risks.

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In agreeing to abolition, went further than S. of E.'s original request. Abolition did pose potential additional strain on monetary targets by possible increase in bank lending, though this effect was not in fact expected to be significant. Not yet possible to judge actual effect, as inextricably combined in August figures of car registrations with effect of new latter, and quarterly analysis of bank lending not yet available. But trade has emphasised change in their advertising.

BACKGROUND

The attached table 1 shows movements in the main indicators of monetary conditions. The target monetary aggregates have been growing at rates within the 8-12 per cent range, and are expected to continue to do so for the next 3 months (the period covered by our internal forecast), though the August figures confirmed our expectations of some acceleration.

The firming in US interest rates this month has been accompanied by a slight weakening of the £/$ exchange rate compared with the latter half of August. In effective terms, however, the £ has remained fairly stable over the period.

The rate of growth of bank lending remains high - the apparent slackening in banking May/June was not sustained. Within the total, the rate of growth of lending to persons by the LCB also remains strong (see table 2 below).

Changes in £ LCB advances

Table 2.

	£ million, seasonally adjusted			% change on year
	June	July	Aug	
house purchase	+302	+356	+315	+111%
other personal	+ 55	+169	+177	+ 25%
total personal	+357	+525	~~+396~~ +492	+ 54%

We are not yet in a position to judge the effect of abolition of HP controls on lending to persons. The LCB figures of 'other personal' lending are thought only to be affected to the extent that persons borrow initial deposits to put down in HP schemes. The Bank's full quarterly analysis of advances and acceptances by all banks will become available later this week, and may cast some further light. The Department of Trade are not able to dissociate the effect on car sales reflected in August figures of new registrations, from those of the new letter and

BACKGROUND

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Changes in £ LCB advances

	£ million, seasonally adjusted			% change on year
	June	July	Aug	
house purchase	+302	+356	+345	+111%
other personal	+ 55	+169	+177	+ 25%
total personal	+357	+525	+396	+ 54%

We are not yet in a position to judge the effect of abolition of HP controls on lending to persons. The LCB figures of 'other personal' lending are thought only to be affected to the extent that persons borrow initial deposits to put down in HP schemes. The Bank's full quarterly analysis of advances and acceptances by all banks will become available later this week, and may cast some further light. The Department of Trade are not able to dissociate the effect on car sales reflected in August figures of new registrations, from those of the new littler and

of special bargain offers available. The September figures may be more revealing.

Mr Middleton's minute of 17 September covering Mr Turnbull's of 14 September set out how officials view the prospects for further reductions in interest rates. There is still thought to be scope for a fall of say ½ per cent in the near future, though this assessment relies more on the behaviour of inflation, the exchange rate, and real interest rates than on the behaviour of the monetary aggregates. US developments are a major uncertainty. It may be easier to judge the longer-term prospects for interest rates when the financial forecast is available in about two weeks' time.

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TABLE 1

Indicators of Monetary Conditions

		RPI[1]	M1[1]	£M3[1]	PSL2[1]	3-month[2] interbank rate	£ EER[2]
1982	Jan	12.0	11.1	14.3	12.5	15.0	91.2
	Feb	11.0	9.0	13.9	12.2	14.4	91.5
	Mar	10.4	8.4	13.9	12.0	13.5	90.8
	Apr	9.4	4.3	12.4	11.0	13.7	90.1
	May	9.5	4.0	11.9	10.5	13.4	89.9
	Jun	9.2	6.4	12.6	10.5	13.0	90.9
	Jul	8.7	4.7	11.1	9.0	12.4	91.2
	Aug	8.0	8.3	11.6	9.3	11.1	91.3
	Sept (to date)	*	*	*	*	11.0	91.7
Rate of growth in 1982-83 target period to date (annual rate, per cent)[3]			8.4	11.2	8.8		

(1) increase after previous 12 months, per cent

(2) average of weekly values

(3) target range 8-12 per cent

* not available

TABLE 1

Indicators of Monetary Conditions

		M1 (1)	M1 (1)	AM2 (1)	LOAN (1)	3-month interbank rate (2)	3 BAA (2)
1982	Jan	12.0	11.1	14.3	12.5	15.0	91.2
	Feb	11.0	9.0	13.9	12.2	14.4	91.5
	Mar	10.4	8.4	13.9	12.0	13.5	90.8
	Apr	9.4	4.3	12.4	11.0	13.7	90.1
	May	9.5	4.0	11.9	10.5	13.4	89.9
	Jun	9.2	6.4	12.6	10.5	13.0	90.9
	Jul	8.7	4.7	11.1	9.0	12.4	91.2
	Aug	8.0	8.3	11.6	9.3	11.1	91.3
	Sept (to date)	*	*	*	*	11.0	91.7

Rate of growth in 1982-83 target period to date (annual rate, per cent)(3)

	9.4	11.2	8.8

(1) increase after previous 12 months, per cent

(2) average of weekly values

(3) target range 8-12 per cent

* not available

CONFIDENTIAL

from N. MONCK
16/7/82.

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir K Couzens
Sir W Ryrie
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

C.

Sign to CST + EST (can he inform the Cabinet PM's stance too?) PM attach previous papers — incl.
I know
- abolition of controls
- no intendment of Bank's guidance
- announce in debate, which is on 28 July
a) Cockfields letter — ? 28 June
b) C/E's reply — 13 July
c) My record of meeting with governor — ? 8 July.

(It is, I suppose, not yet clear which PM is to make the debate? Depends on whether Lords or not. I have a special claim — call Lord C —

HIRE PURCHASE CONTROLS
(together with E2) + CWS derivation)

This minute reports on the mechanics, timing and presentation of the abolition of HP controls about which you wrote to Lord Cockfield on 13 July. As you asked, we have looked at this on two alternative bases: either with or without simultaneous withdrawal of the Bank of England's general directional guidance.

To announce this, know I sign the order M. nothing can control in '73)

2. In practical terms it is a simple matter to revoke the orders which control hire purchase and hiring terms. The Secretary of State for Trade would lay a brief order. It could come into effect on the following day provided he explained to the House that the normal waiting period of 21 days would not make sense, eg because some distributors would jump the gun and steal a march on more scrupulous competitors.

3. Because the process is a simple one, there is a good deal of flexibility on timing. The necessary order should be ready on Monday.

4. The normal method of announcement would be for the Secretaryof State for Trade to do so by written PQ. But if the announcement was being reserved eg for a debate on an Opposition motion of censure about unemployment, the announcement could be made by a Treasury Minister provided Lord Cockfield agreed. He may already have it in mind to make an announcement in the Lords debate on the Finance Bill (on 26 July or later).

Unless I recall I moved all the 72/73 legislation introducing hire, hire purchase + dividend control (Check) So it will be nice for me also to have a word!

5. Annex A contains a draft Parliamentary Answer consistent with the presentation suggested in your letter to Lord Cockfield. The Bank and officials from the Departments of Trade and Industry whom I have consulted are content with the broad line, though their Ministers have not yet seen it. Annex B contains some Q&A material which could be used in supplementaries and for Press briefing, provided by Mr Turnbull with contributions from the Bank and the Departments of Trade and Industry.

6. The briefing takes the line that, as with Exchange Control, we envisage that the legislation controlling the powers would remain on the Statute book, but that does not signal any intention to bring back controls. The use of the word "abolition" in the announcement makes that plain.

7. The Department of Industry have not been able to consult the car industry about their ability to meet any increase in demand for new cars produced by the extra effect on the second-hand market of abolishing HP controls compared with bringing the terms for cars into line with those for other goods (as Mr Jenkins recommended). We do not expect the extra effect to be at all large because the credit terms for cars set by prudential and commercial factors seem unlikely to be much more favourable with abolition than they would be under Mr Jenkins' proposal. In any case, as the briefing points out, the position of the car trade is favourable. The SMMT have desribed stocks as "historically high". The latest figures show stocks of 175,000 compared with an average level in a normal year of 125,000.

The Bank's General Directional Guidance

8. The Bank would like to withdraw their general directional guidance (see annex C) at the same time as HP controls are revoked. The guidance is unclear, hard to enforce and a source of embarrassment to the Bank. General guidance on priorities in lending make little sense in the absence of quantitative controls and in a period of "liability management" when banks do not regard one form of lending as seriously pre-empting another.

9. The Bank do, however, see a role for issuing specific guidance from time to time. The only extant example is the January notice on mortgage lending which sought to prevent borrowers realising the equity stake in their houses. Although the Prime Minister was disturbed about this, the Bank reckon that it was well received both by the clearers and by the building societies who had asked for it.

10. Annex D contains the Press Notice which the Bank would put out if it were agreed that their general guidance should be withdrawn.

11. The arguments of substance favour withdrawing the general guidance. But it would make presentation a bit more difficult. It might look like a further green light for bank lending in general and personal lending in particular. It might also provoke criticism about down-grading the importance of lending for industry, even though as Annex D says, the Bank does not consider that withdrawal would have any effect on the willingness of banks to lend for the purposes previously given priority. The Bank is confident that the clearers would not treat withdrawal as a green light and that they would say so if asked by the Press.

12. The alternative to withdrawal would be to leave the guidance and let it wither. There is no need to withdraw it even though it tells banks not to provide loans on "terms easier than those permitted for hire purchase contracts". If asked, the Bank could simply say that this sentence would cease to have any practical meaning.

13. If the general guidance were withdrawn and you were announcing the abolition of HP controls in the House, you would need to consider whether to add a sentence about the guidance. That would not be necessary if Lord Cockfield were announcing abolition in a PQ.

14. The Bank would need a day's notice of the date of announcement to allow time for the physical production of the notice about withdrawal that would have to go to all banks and licensed deposit-takers.

Conclusion

15. If you were content with the general presentation proposed and if the Secretaries of State for Trade and Industry agreed, the abolition of HP controls could be announced in the House next week. But it could also be announced during a censure debate in the following week if you preferred that. You will need to speak to Lord Cockfield who may wish to announce abolition himself in the Lords' economic debate on the Finance Bill on Monday 26 July.

16. The arguments of substance point to simultaneous withdrawal of the Bank's general directional guidance. Although they would envisage issuing specific guidance from time to time, they have no proposals for doing that now. The Governor favours withdrawal. But if you felt that the counter-arguments, which are purely presentational, were decisive, the alternative would be to leave the guidance in being and allow it to wither. You would no doubt wish to explain this to the Governor, who is likely to approach you next week.

17. It would be helpful to have your views on presentation, timing and the question of withdrawing the Bank's guidance.

N MONCK
16 July 1982

ANNEX A

Q To ask the Secretary of State for Trade whether he will consider relaxing the..... orders.

DRAFT REPLY

Yes Sir. I have kept the control of hiring and hire purchase orders under review in consultation with my Rt Hon Friend the Chancellor of the Exchequer. I have now decided that theyshould be revoked. These controls on hire purchase terms for certain categories of goods were originally part of a wider apparatus of quantitative controls on credit. We have progressively dismantled these in the interests of freeing competition and remvoing economic distortions. The impact of these controls has always been discriminatory, as the Crowther Report pointed out, both between different categories of consumer goods and between purchasers with access to different sources of credit. In addition over the years the enforcement of the controls has been cut back and is now minimal. This has added to the discriminatory effect of the controls and further weakened their contribution to overall economic policy. The Government are satisfied that although the abolition of these controls will give some benefit to the sectors most affected by the regulation, particularly cars, it would be consistent with maintaining overall conditions that will bring further falls in inflation.

+ under summer goods

CIRCULATION

Principal Private Secretary
Mr Littler
Mr Byatt
Mr Unwin
Mr Fitchew
Mr Battishill
Mr Lavelle
Mr Bottrill
Miss Court
Mr Mortimer
Mr M A Hall

Mr M J Balfour B/E
Mr Durie Cabinet Office
Mr Fairweather FCO
Mr Butt UKREP (6 copies)
Mr Garside Paris
Mr Beamish Bonn
Mr N L Wicks Washington
Mr Richardson Rome

Steering Brief only
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Ridley
Mr Gordon
Mr Bostock

CONFIDENTIAL

PWP

FROM: C D HARRISON
DATE: 19 JULY 1982

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir D Wass
Sir K Couzens
Sir W Ryrie
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Monck
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

HIRE PURCHASE CONTROLS

The Economic Secretary has seen Mr Monck's submission of 16 July on the abolition of HP controls.

2. He can still see no sense whatsoever in withdrawing the Bank of England's general directional guidance. It is hardly something about which people lie awake at night; and while failure to withdraw it would pass totally unnoticed, withdrawal would attract attention, strengthening the notion that the supervision of money and credit was meaningless.

CDH

C D HARRISON

FROM: J O KERR
19 July 1982

MR MONCK

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir K Couzens
Sir W Ryrie
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

HIRE PURCHASE CONTROLS

The Chancellor has seen your submission of 16 July. Subject to the views of the Chief Secretary and Economic Secretary, he favours:-

a. abolition of all hire purchase controls;

b. no withdrawal of the banks general directional guidance;

c. announcement to the House during the censure debate, if indeed there is one. (Likely date now 28 July.)

2. Announcement to the House during a debate would presumably not obviate the need for a written PQ. The Chancellor would

be grateful if the Economic Secretary would consider the draft at Annex A to Mr Monck's submission. He believes that it - and particularly its last sentence - could be improved presentationally.

3. We shall be in touch with Lord Cockfield about the nature and timing of the announcement.

J O KERR

FROM: MISS J M SWIFT

DATE: 20 July 1982

PWP

CHIEF SECRETARY TO THE TREASURY

~~PRINCIPAL~~ PRIVATE SECRETARY

C.

So we are unanimous, internally, and the only hurdle now is Mr Jenkin's motor-men.

cc Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir K Couzens
Sir W Ryrie
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Monck
Mr Lovell
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

HIRE PURCHASE CONTROLS

The Chief Secretary has seen your minute of 19 July. He very much favours the action proposed in paragraph 1 of your minute.

MISS J M SWIFT

RESTRICTED

FROM: THE ASSISTANT PRIVATE SECRETARY

DATE: 20 JULY 1982

PS CHANCELLOR

cc PS Chief Secretary
PS Financial Secretary
PS Economic Secretary
PS Minister of State (C)
Sir Douglas Wass
Sir Kenneth Couzens
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Monck
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

HIRE PURCHASE CONTROLS

The Minister of State (Revenue) agrees with the Economic Secretary's view reported in Mr Harrison's minute of 19 July; he feels that withdrawal of the Bank of England's general directional guidance will raise a storm out of all proportion to the issue.

Tim Milner

J C MILNER

297/7

CONFIDENTIAL

C. If you agree, I'll speak to Mr Jenkin's office; saying a) you are content that Sundays be made, but b) you would certainly wish point ≠ to be included. JDL. 21/vii

FROM: A H LOVELL

DATE: 21 July 1982

Economic Secretary
Sir D Wass
Mr Middleton Mr Lovell
Mr Tinkler
Mr Hall

1. MR MONCK

2. PRINCIPAL PRIVATE SECRETARY

cc Mr Quinlan
Mr Chivers

and ≠

Consulting the manufacturers runs the risk of getting an answer against abolition. But unless the Chancellor and Lord Cockfield are prepared to put pressure on Mr Jenkin, I don't see what other course gives us any chance of reaching his aims. I have slightly amended the last paragraph.

NM 21 July

ABOLITION OF HIRE PURCHASE CONTROLS

I understand that the Secretary of State for Industry wishes to consult representatives of the motor car industry before agreeing to the total abolition of HP controls on motor vehicles. I have spoken to the Department of Industry officials and if there are such consultations they propose to consult Mr Horrocks (BL), Mr Turnbull (Talbot), Mr Toy (Ford) and someone at Vauxhall. The SMMT would not be approached. The Society would have considerable difficulty in giving a considered reply since they represent motor traders as well as the motor manufacturers; the traders are of course enthusiastic supporters of total abolition. — as last week's letter showed.

≠

2. DOI officials believe that the representatives of the car industry will argue for a phased abolition over a long period - perhaps 2 or 3 years rather than a sudden death. This is because HP controls have largely operated in respect of private rather than business purchases, and the manufacturers fear that total abolition would lead to a sharp up-surge in demand for imported cars. If this coincides with the introduction of the new registration letter in August, the statistics of new car sales might show a large proportion of foreign cars for a month or so.

3. In my view this attitude implies excessive caution on the part of the industry. There is likely to be a sharp increase in imported car sales in August as the new registration letter comes in, and no doubt the abolition of HP controls would strengthen this. But it is still the case that the HP controls bite on a relatively small proportion of car buyers, and that the main immediate effects will be felt in the secondhand car market. Moreover stocks of cars are high, and the British manufacturers are well placed to take up the challenge. But the views of the industry cannot be entirely discounted, if indeed they also take the view that outright abolition might

be damaging. It would not be reasonable to deny the Secretary of State the opportunity to sound out the industry on this matter.

4. There is one point on which Mr Monck might advise. The Secretary of State might perhaps be advised to point out to the industry that although monetary conditions seem our position and inflation control the opportunity to remove the controls ~~may not appear again for~~ cannot be relied on to be available on future some time, which may look ideal now to the manufacturers. Much depends on the course of monetary conditions and other factors which could inhibit the Government from further relaxing the controls. But the precise form this might be put I would prefer to leave to Mr Monck.

AHL

A H LOVELL

IA

CONFIDENTIAL

JK P, Do you still have x?
No.
C 22/7

FROM: C D HARRISON
DATE: 22 JULY 1982

C.

PRINCIPAL PRIVATE SECRETARY

cc Sir D Wass
Mr Middleton
Mr Quinlan
Mr Lovell
Mr Monck
Mr Chivers
Mr Turnbull
Mr Hall

I have pressed Mr Jenkin's office again tonight.
2/VII.

ABOLITION OF HIRE PURCHASE CONTROLS

In his minute to you of 21 July, Mr Lovell says that DOI officials believe that representatives of the car industry will argue for a phased abolition of hire purchase controls over a period of perhaps 2 or 3 years, rather than outright removal.

2. The Economic Secretary wishes to report that when he was lobbied by a group of Midland MPs last Tuesday, they were unimpressed by the argument that abolition would merely lead to a flood of imports. They argued - presumably based on what they are told in their constituencies - that at least 40% of extra sales would go to domestic producers.

CDH

C D HARRISON

PERSONAL

FROM : J O KERR
DATE : 23 JULY 1982

CHANCELLOR

HP CONTROLS

We have chased the DOI; and the position there is now as follows:-

a) The soundings among motor manufacturers have revealed no unanimity, but a general disposition to encourage us to go ahead. Amusingly, some have jumped to the conclusion that we may be after all following the CBI's reflationary recipe, and be about to announce a major package, of which relaxation of HP controls would be a minor component, and have said that they very much hope that we don't. (I wonder whether Mr Jenkin will report this to you).

b) Some in the DOI are worried about a surge of imports of television sets.

c) However, the consensus among DOI officials is that we should go ahead and abolish all controls.

d) Mr Lamont, who was previously doubtful (re cars), now agrees with officials.

e) Mr Jenkin is aware that he must make up his mind this weekend. He will be considering a draft letter to you (agreeing to your proposal).

So we wait and see. We'll chase DOI early on Monday again if no letter turns up. And so will DOT, even more strenuously, given that they plan to make the statement on Monday.

JOK.

J O KERR

PS. To reduce risk of gubernatorial embrage, I explained to his office (in parallel to Bank) the reasons for your decision that the "General Directional Guidance" should not be scrapped. No come-back (yet).

John

I've played with draft - but I don't know anything abt. the subject.

Jim

CHANCELLOR

cc Economic Secretary
Sir Douglas Wass
Mr Middleton
Mr Monck
Mr Turnbull

HP CONTROLS

I attach a draft reply (which you asked for urgently) to these letters from Sir Julian Hodge, which urge that any relaxation of HP controls should discriminate against Japanese cars. This suggestion of course runs up against international obligations, irrespective of any wider considerations. The draft draws on the briefing for today's announcement of the abolition of HP controls.

2. In the time available, we have not been able to make a full search in HF for Sir J Hodge's letter of April 1981, which never received a reply, but we are pretty sure that we did not see it at that time.

N. J. Ilett.

N J ILETT
26 July 1982

Personal.

DRAFT

FROM: CHANCELLOR

PL type

TO: Sir Julian Hodge
The Carlyle Trust Limited
31 Windsor Place
Cardiff CF1 3UR

Thank you for your letter of 23 July. I am sorry you never had a reply to your letter of 13 April 1981; I am afraid that we cannot trace any record of that letter.

As you will have heard by the time this letter reaches you, we have decided to abolish all hire purchase controls. Changes in the structure of the consumer credit market mean that these controls now contribute little to overall economic policy, and abolition is consistent with our policy of removing restrictions and eliminating distortions in the economy wherever possible.

I expect that there will be some benefit to the motor industry, which was particularly affected by the hire purchase regulations, but this benefit should be consistent with our economic policy. Stocks of British-made cars are high, so there should be no sudden boom in imports.

As you yourself hint, in your letter of 23 July 1982, a relaxation of HP controls which discriminated against Japanese cars would breach our international obligations. It is not therefore an option, which we can pursue. Clearly foreign manufacturers will

share in the ~~any~~ benefit from ~~HP~~ the abolition of HP controls. ~~with British manufacturers,~~ But I do not think that could have been avoided, given the ~~[illegible]~~ ~~[illegible]~~ penetration ~~but this is inevitable given the share of the market which~~ of foreign cars into the British market in recent years. I do not however ~~foreign vehicles have won in recent years.~~ believe that that consideration should have deterred us from making this move (– and I speak as the man who had to impose full hire purchase controls as Minister of Trade in the early 1970s). ~~I believe its overall effects will be beneficial~~.

[G. H.]

JU542

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

pl 6 is imp

27 July 1982

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

CH EXCHEQUER
REC 28 JUL 1982
ACTION Mr Monck 28/7
COPIES TO CST FST EST MST C MST R

Sir D Wass
Sir K Couzens
Mr Middleton
Mr Ilett
Mr Kemp
Mr Lovell
Mr Turnbull
Mr Pirie
Mr Hall
Mr Ridley

Dear Geoffrey,

HIRE PURCHASE CONTROLS

As you will be aware, Arthur Cockfield announced in the House of Lords this afternoon the abolition of HP controls.

2 I am writing to you now because I think it would be helpful if I recorded the outcome of the consultations which my Department carried out with the industry prior to this announcement. I was grateful to you for agreeing to a quick round of consultations. This was carried out in strictest confidence, with the Heads of the four major car assemblers. Although three of the four were opposed to abolition, as distinct from relaxation, their reasons were of a general economic and prudential kind. In particular, they feared that abolition would lead to consequences which would necessitate re-imposition of the controls at a later date. I do not attach particular significance to these views.

Ah!

3 As regards the effects on the UK car manufacturing industry, all four felt that stocks of finished cars were sufficiently high for them to be able to cope with a sharp peak of business in August and September. Although they all pointed to the likelihood of an extremely turbulent car market in those months, with abolition coming on top of the start of the new registration year, they believe that their companies could maintain their normal market share for those months and that there would be no permanent adverse effects in higher import penetration. I therefore took the view that there were no compelling reasons so far as the interests of the UK car producers are concerned for delaying an announcement on abolition of controls.

4 The other sector in which abolition may have an impact is consumer electronics, in particular television and teletext sets. Abolition is likely to work more in favour of retail and against TV rental, and it is the rental business on which the UK industry is most reliant. UK manufacturers may therefore see removal of controls as working against their interests and in favour of imports, and we may face some criticism from this quarter. While recognising this concern I do not think that it is substantial enough for me to oppose the abolition of controls. However, we shall need to keep a close watch on the effects on this industry and it may be that there will be a case for reconsidering the capital allowances available in the rental sector as a means of offsetting any adverse impact.

5 Taking into account the view of both the car manufacturers and consumer electronics sector, I was prepared to agree to total abolition of controls, although I think it right to warn you that there may be some criticism from the TV manufacturers and rental companies.

6 One point on which I hope we may be able to give some assurance to industry would be to make it clear that there will be a stable regime from now on and that we have no intention of reintroducing what we regard as outdated controls.

7 I am copying this letter to Arthur Cockfield.

Yours ever

P

Patten

I attach great importance to § 6 above. It would be deeply damaging to confidence in the industries affected if we were later to reimpose such controls.

P.

PS/CHANCELLOR

FROM: N J ILETT
27 July 1982

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Monck
Mr Hall
Mr Turnbull
Mr Ridley

HP ABOLITION

As requested, I attach a one-page note on the reasons why abolition should not now lead to a 1973-type import boom. This draws mainly on the material attached to Mr Turnbull's minute to Mr Hall of 26 July.

N.J. Ilett.

N J ILETT

CONFIDENTIAL

P. attach the ~~[illegible]~~ letter

2/8/82.

C.
Do you want to write in the terms proposed – or do you want to let sleeping hire purchase controls lie?
JR
3/8

OK

NCELLOR

cc CST
FST
EST
MST(C)
MST(R)
Sir D Wass
Sir K Couzens
Mr Middleton
Mr Quinlan
Mr Kemp
Mr Lovell
Mr Pirie
Mr Davies
Mr Hall
Mr Ridley

HIRE PURCHASE CONTROLS

In his letter of 27 July the Secretary of State for Industry recorded the outcome of his consultations with the four major car assemblers and with the consumer electronics sector. He thought that there might be some criticism from UK TV manufacturers and rental companies and mentioned the possibility of "reconsidering the capital allowances available in the rental sector as a means of offsetting any adverse impact".

2. The attached draft reply ignores that suggestion but accepts Mr Jenkins' suggestion that if the possibility of reimposing HP controls is raised, Ministers should say that they have no intention of doing so. I suppose that if some way of restraining consumer credit in general could be devised, the Government might some day wish to resort to it. But it is difficult to see any circumstances in which the reimposition of HP controls by themselves would make substantive sense, so I think the assurance is a reasonably safe one.

NM

N J MONCK
2 August 1982

CONFIDENTIAL

DRAFT REPLY FROM

CHANCELLOR to SECRETARY OF STATE FOR INDUSTRY

4/8

pl. type

HIRE PURCHASE CONTROLS

Thank you for your letter of 27 July ~~in which you recorded~~ recording yourconsultations with industry before you agreed to the abolition of hire purchase controls which Arthur Cockfield announced on 22 July.

2. In the event reaction to the announcement was satisfactory and I am sure that the decision we took was the right one. It is very useful to have on record the belief of the four major car assemblers that their companies could maintain their normal market share in August and September and that there would be no permanent increase in import penetration.

3. I agree with you that it would be damaging to confidence in the industries concerned if we were later to reimpose hire purchase controls. The parliamentary announcement pointed out that these controls were originally a part of a wider apparatus of credit control and that changes in the structure of the consumer credit market meant that they now contributed little to overall economic policy. Against this background I think that if the possibility of reimposing hire purchase controls is raised by industry, we should take the line in the briefs prepared by our officials. This was that we are very conscious of the disruption that reintroducing hire purchase controls would cause for the industries affected and that we have no intention of doing so.

CONFIDENTIAL

DRAFT REPLY FROM

CHANCELLOR to SECRETARY OF STATE FOR INDUSTRY

MISS LEONARDS OCTAVIAN

Thank you for your letter of 31 July [illegible] consequential consultations with Industry before you agreed to the abolition of hire purchase controls when Arthur Cockfield approached on 22 July.

2. In the event reaction to the announcement was satisfactory and I am sure that the decision we took was the right one. It is very useful to have on record the belief of the four major car manufacturers that their competitors could maintain their normal market share in August and September and that there would be no permanent increase in import penetration.

3. I agree with you that it would be damaging to confidence in industrialism generally if we were later to reimpose hire purchase controls. The publication of announcements relating just back these controls was originally a part of a wider programme of credit control and that changes in the structure of the consumer credit market meant that they now contributed little to overall economic policy. Against this background I think that if the possibility of reimposing hire purchase controls in relation to industry, we should have the like to be related primarily to our activities. This was that we are very conscious of the information that redistributing the pressures controls would cause for the industries affected and that we have intention of doing so.

4. I am sending a copy of this letter to Arthur Cockfield.

(SIGNED)

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(SIGNED)