

ECONOMIC RECONSTRUCTION GROUP

Minutes of the fourth meeting
held at 9.30 a.m. on Friday 18th
July 1975 in the House of Commons.

Present: Sir Geoffrey Howe, MP, (in the Chair)

Mr. Ian Gilmour, MP
Mr. David Howell, MP
Mr. Michael Heseltine, MP
Sir Leonard Neal
Mr. Niblock) Secretaries
Mr. Ridley)

Apologies: Sir Keith Joseph, MP
Mrs. Oppenheim
Mr. Nott, MP
Mr. Biffen, MP

1. Minutes of Last Meeting

These were confirmed by the Chairman.

2. Discussion on Papers

A discussion was held on papers produced by Mr. Adam Ridley (PG/10/75/12), Mr. Brian Griffiths (PG/10/75/9) as well as on a note from the Israeli Embassy (PG/10/75/11).

Mr. Howell said that the Government had reasonable grounds for hope that by the early part of next year the rate of inflation was likely to be in the 15-20 per cent range and that the Government would then pretend to people that its anti-inflationary policies were having some effect. It was pointed out that this depended very much on the rate of wage settlements and despite the Government's recently announced package of measures there was little reason to be optimistic on this score. Average earnings would come down in the months ahead because of the deepening recession, which once the economy began to pick up again the full impact of inflation on industrial costs would become apparent.

It was agreed that a key question was whether the Government would succumb to the temptation to reflate the economy next year in order to bring some short-term relief to the employment situation. Paragraph 42 of the White Paper seemed to imply that the Government had in mind a boost to demand next year, even though this could push inflation subsequently to even higher levels.

A discussion took place on the "ideal package" envisaged by Mr. Ridley in his paper. The main features of this were a planned reduction in public spending over the next few years in order to make way for personal consumption, exports and investment; a scheme to ensure higher investment and the resumption of investment and export led growth; tighter monetary control; labour market reforms; a 12 month wage freeze and further moves towards index-linked savings. It was acknowledged that this would have a short-term effect of increasing unemployment, but such a package would create a sounder base for employment in the medium and longer terms than existed currently.

It was agreed that in defending itself against the accusation that its policy on public spending was inappropriate at a time when the economy was already depressed, the Party had to draw attention to the psychological damage that the Government was doing by failing to exercise restraint over its own spending while urging constraint on consumers. At the same time attention should be drawn to the inflationary risks contained in the present inflated borrowing requirement and the need to make an immediate start in shifting resources from the public to the private sectors. The so-called "crowding-out" argument, namely that the growth of the public sector was making it difficult to achieve expansion in the private sector of industry, was an important one, and needed to be deployed in Parliamentary and public speeches. One aspect of this phenomenon was the evidence that the capacity of firms to borrow for long-term investment was being adversely affected by the huge pre-emption of investment funds by Government.

Summarising a discussion of the Party's tactical stance with respect to economic policy, Sir Geoffrey Howe said that it was agreed that the Party had to enunciate its own view of economic policy, showing where the Government was failing to take the necessary action. Where the Government action was appropriate it should be supported. The recent package of measures was clearly a move in the right direction but there were still too many inadequacies and omissions.

In order that an interim report could be sent to the Shadow Cabinet on the work of the Economic Reconstruction Policy Group, Sir Geoffrey Howe asked Mr. Ridley to draw up a draft paper for his consideration. It was suggested that this paper should begin with a diagnosis of the present situation, and, after stating clearly the overriding priority that had to be given to fighting inflation, spell out the policy options which were before the Party. Some comment on the Healey package should also be included.

A further meeting would be arranged after the Shadow Cabinet had considered the Chairman's report.