

CONFIDENTIAL



Econ Pol.

NBPM

ms

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

9 August, 1979

Thank you for your note of 1st August in which you develop your views on the contribution the Government policy might make towards a healthier economy and the preservation of a free society. I agree with you all along the line, and I have no doubt that our colleagues would do so as well.

The note raises, of course, some fundamental problems. As you suggest underlying the urgency to find solutions to our economic difficulties - low growth, inflation and so on - there is lurking a political challenge which threatens the very survival of our democracy. I am sure that changes in the fiscal environment can contribute towards defeating this challenge. Sustained action in the area you suggest will improve our economic performance and establish therefore a more hopeful future.

In fact, as you know, the specific measures you suggest are being examined by officials in the context of the strategy exercise. On this I have to sound one note of caution. The arithmetic looks like obliging us to approach measures which cost a good deal of revenue more cautiously than either of us would wish. The fact that our proposed spending cuts emerged from Cabinet about £1.3 billion "light" underlines the extent to which our pace of fiscal progress will depend on compatible policy changes in other areas.

In any case, to borrow an overworked but useful phrase, while fiscal reform is a necessary condition for our success, we know that it is not sufficient in itself. A great more needs to be done and the private sector must be encouraged to play its part. In this connection following an E Committee discussion on pay Angus Maude, Keith Joseph and I have accepted responsibility for setting up a concerted publicity campaign to get across the need for responsible pay bargaining and more generally to explain the purpose and aims of our economic strategy.

I am copying this to Members of "E", John Hoskyns and Sir John Hunt.

(GEOFFREY HOWE)

The Rt. Hon. David Howell, M.P.

1-9 AUG 1979

