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Mr. du Cann: Well what the Committee meant was really a matter of commonsense. There is now great public anxiety about the level of unemployment. For example that's one of the problems we have in the United Kingdom as other countries throughout Europe and the developed world have. And it may be that anxiety will be so great that it will call into question the very objectives of the policy which the Chancellor is pursuing.

Interviewer: Are you suggesting that those objectives cannot be obtained if the Government pursues its present course?

Mr. du Cann: No I wouldn't say that at all. I would say however that there is a risk that the Chancellor may well be knocked off course by the volume of political complaint that is bound to follow high unemployment.

Interviewer: You go on to talk about your anxieties about manufacturing output. You say you see no convincing evidence that the fall in output is coming to an end. What evidence has the Treasury offered to try to persuade you that it was?

Mr. du Cann: Well there are two aspects of this matter. The first is the fact that the fall in unemployment (corrects himself) the fall in manufacturing output is really very severe 14% over two years. And there is a great unevenness in the way in which commerce, industry and the economy in general is experiencing at the present time. For instance Government activity seems to continue almost unabated because the Public Sector Borrowing Requirement is so high yet on the other hand manufacturing industry is having a very rough time indeed. Now the second is this. Undoubtedly there is ^a great wish on the part of Government, on the part of all of us, to see the depression, which is a very severe and international thing, bottoming out. As yet there is no evidence of that and all that we have heard are expressions of wish that it should be so.

Interviewer: It seems to me that the Committee collectively has grave doubts about the accuracy of the Treasury predictions and forecasts. Not merely on that but on things like the control of the growth of the money supply.

Mr. du Cann: Well that of course is true, its very worrying that the money supply has continued to rise at the rate that it has. I think that if there has been a mistake its been that we on the Conservative side of the House, and I speak as a friend of and supporter of the Chancellor's, have allowed so much emphasis to go on to a single indicator. I feel the Bank of England today suggesting that M3 maybe is not the perfect indicator, certainly the Committee feels this and will be reporting on the subject in due course.

Interviewer: In fact the views of the Bank of England and the views of the Select Committee seem to coincide in many particulars.

Mr. du Cann: That's absolutely right. Not only do they coincide but they are very largely complementary I think too.

Interviewer: What do you make of the apparent criticism of the tightness of the monetary policy which has come from the International Monetary Fund today?

Mr. du Cann: Well I think that's misplaced. Because the truth of the matter is that although the Government have the label of being severely monetarist on any dispassionate observation its been very far from that.

Interviewer: What advice Mr. du Cann is your Committee giving to the Chancellor. You are clearly not very happy with what has been going on so far. Is there anything the Government can or should do to change its course in a way which would meet some of your criticisms?

Mr. du Cann: Well I think one of the interesting points that we are making is it seems that probably, this is inferential rather than directly stated in the Report, there is now no reason why interest rates should not be further reduced. Its quite clear that such tightness that there has been in terms of monetary policies has not necessarily had quite the effect that people expected.

Interviewer: Is there a further danger, do you think, that if the Government's hope that public sector pay is restricted to the 6% cash limit, if that hope is not fulfilled, that things may go from bad to worse.

/ Mr. du Cann:

Mr. du Cann: That is undoubtedly true and one of the very good marks that the Committee give to the Chancellor is for his immediate acceptance of recommendations that the Committee made in the way in which public sector pay is treated in the estimates and in terms of Government financing generally. It seems that the Treasury itself was less than keen on the fact that it is obviously necessary to get a degree of control over public sector pay but the Chancellor stepped in and apparently overruled.

Interviewer: Have you any feeling at all that the Government is riding a juggernaut which itself has started which it can no longer control?

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Mr. du Cann: I think that Government ought to point out much more frequently than it does that we are in the throes of a world recession. There seems to be a natural assumption that anything that goes wrong in the United Kingdom is automatically the fault of the domestic Government whatever its political complexion is. That obviously is rubbish. On the other hand, however, there are practical things that need to be done and picking up one of your earlier questions the Committee feels, I certainly feel passionately that we need as an Administration to be spending less on administration and very much more on investments.

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Interviewer: Sir Geoffrey, Mr. du Cann says that he is a friend and supporter of yours. Do you feel that he has been friendly and supportive enough in the Treasury Select Committee Report.

Chancellor: Well let me remove first of all a premise with which you introduced this interview referring to the level of gloom and doom and so on implicit in the Bank of England's Report being discussed today. The Bank of England's Report is making very much the same points as the Treasury's. The Deputy Governor of the Bank this morning said that they are entirely in line with us on the policy. And I think there is too much of a tendency to look always with gloom and doom when one is looking at forecasts. If you look at other

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forecasts at the London Business School, for example, and other forecasters, they are if anything more optimistic than the Treasury. Let's try to look at with a sense of reality and try to assess the role of Edward du Cann. I think the most important point that he was making as Chairman of the Committee was expressing a risk that the Government may be knocked off course by political complaint. Now my regret is, and this isn't the right time to reply in full to the Committee, that the Committee in preparing their Report did not have that more fully in mind. In his later remarks Edward du Cann criticised the Government for not making enough of the extent to which our economic problems flowed from the world recession. Criticised the Government for allowing people to think that all our problems could be solved by Government action, and so on. The truth is that it would be enormously welcome if this Committee Report itself had made those things, if it said that the problems that are facing us are the problems created by the world recession. If it had said that so far from expecting that our problems can be solved by altering the assumptions and Treasury forecasts that they depend on other things which are right outside Government control.

Interviewer: I think one point, Sir Geoffrey, that the Select Committee does repeatedly criticise is the lack of accuracy in some predictions the Treasury has made, for instance on the ending of the fall of manufacturing output, they have said that "we have seen no convincing evidence that the fall is coming to an end". They are critical of the growth of the money supply.

Chancellor: But again you see to criticise forecasts is to misconceive the role or the reality of forecasts in any economy. They are bound to have elements of error in them as I have just said, there are forecasts that are actually more optimistic than our forecasts on the likely date of the upturn of the economy. But I think that the Committee have become a shade too obsessed with what I might call "instant forecasting comment" rather than emphasising the important political realities, which as a matter of common ground I would like to see them getting through to the people the need, for example, for continued responsibility overwhelmingly in pay bargaining - the thing that far more than the exchange rate has damaged our competitiveness in recent years. There is no reference to that in the Report.

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Interviewer: But presumably, Sir Geoffrey, Government strategy has got to be based on forecasts of some kind. Doesn't it? You have to take the Treasury forecasts and say this is probably what is going to happen?

Chancellor: Indeed, and there is nothing in the Report that suggests that the Government's strategy is based on a wrong assessment of forecasts. As I understand it their concern is the risk that we might be knocked off the course which by implication they commend, by short term difficulties. So this is one of the problems of a Committee of this kind. It's new in its existence. It's a development that I much welcome to try and extend the area of common ground and common understanding. A very difficult task for a Committee with members from very widely differing points of view and different parties, so there is bound at this stage to be a tendency for them to offer contradictory conclusions, contradictory advice, to refrain from offering prescriptions or recommendations. As Edward du Cann said, such as there are are inferential. And if you look at the compendium of views expressed in the Report they do on almost every issue appear to be facing both ways. They tell us that the money supply has been growing too quickly but that the financial squeeze is too tight. They are calling for intervention to bring down the level of the pound but they want tighter monetary control. They want public spending cuts but they don't want cuts that hurt the private sector. They want nationalised industry prices restrained but the Public Sector Borrowing Requirement reduced. And so on. It's difficult for them to come to conclusions and make recommendations and that I think is the shortcoming of the Report.

Interviewer: You sound, Chancellor, as if you think the Report hasn't been very helpful. But one point, when I asked Mr. du Cann whether he had any specific advice to offer to the Government, he said that perhaps the time had come to make a further cut in the interest rate. Do you see any prospect of that in the near future.

Chancellor: Well as you know I don't comment on the prospects for interest rate changes at any stage in this kind of way. But there again you see of course everyone wants to see lower interest rates but the implications of the Report are conflicting on that.

The section which is by implication criticising the prematurity of the reduction we have made a few weeks back, and yet calling for further progress in the same direction. I think this is the anxiety that the Committee are offering no coherent alternative. They are feeling their way to what I hope will be a more constructive approach and I fear have tended to play down the good news - the great success we are having in the attack on inflation, and to add to the risk, which they themselves have identified, that Government may be knocked off course by political complaint. I would like to believe that as the Committee develops in its work they will help to sustain Government in the strategy to which they are offering no alternatives.