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TO ALL MEMBERS OF THE LEADER'S CONSULTATIVE COMMITTEE

In addition to the items already on the Agenda for discussion at the Leader's Consultative Committee on 14th May, the attached paper by Mr. Prior will also be considered after discussion of future business.

CHRISTOPHER PATTEN

Conservative Research Department,  
24 Old Queen Street, London, S.W.1.

CFP/SMW  
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COUNTER INFLATION POLICY[Paper by Mr. Prio7]

1. Even since this paper was commissioned, the urgency to consider our position on counter-inflationary policy has intensified.
  - (a) The wage round is drawing to a close. There are Railways, Steel, Power Engineers, and Seamen in the main danger areas still to be settled. If time permits the Government would be wise to get them out of the way before changing policy. I doubt if this option is now possible.
  - (b) We need to take up a public position quickly, and preferably before the Government is forced to act. We are in danger of being regarded as irrelevant in the present crisis. The general public expects us to have views on how to tackle the problems and will want to know what they are.
  
2. On the credit side, the Government will point to the improvement in the balance of payments (but for how long given further devaluation and re-stocking by industry), and to a relatively restrained growth in money supply. On the debit side it is now clear that:-
  - (a) Prices are growing at about 25 per cent a year and the rate will accelerate this summer.
  - (b) Wages and salaries are settling down at a growth rate of 30 per cent p.a. or so, and adding to the already mounting total of unemployment.
  - (c) Public spending is consistently exceeding the Government's targets and controls and pushing up the deficit and borrowing requirement all the time.
  - (d) It will be very difficult to sell gilt-edged on the vast scale required to cover the deficit for much longer, so interest rates must rise before long.
  - (e) The exchange rate is sliding inexorably downward as
  - (f) confidence both at home and overseas is being sapped as the fact that the Government's present policies are inconsistent, ineffective, untenable and a recipe for decay and ultimate disaster, gains credibility.
  
3. The social contract has failed to bring about wage restraint. It has in fact raised people's expectations and lulled them into a false sense of security. The public sector deficit has been allowed to grow unchecked as the quid pro quo for non-existent wage restraint.

4. We can all agree that to master inflation a tight monetary policy is essential. But as I shall try to show (para 10), it will not be enough and there is not sufficient time. We need some form of wage restraint too.
5. The Government would like to persevere with the social contract. They could set specific guidelines or index. They could have a panel of umpires to report whether these guidelines were being respected. They could go further in respect of their own public sector. They would prefer this to a statutory policy and unless forced by events, will not go further to a fully-fledged statutory policy.
6. The Government will reluctantly have to increase taxation and cut public expenditure - although we need no reminding of how difficult that is to do in the short term.
7. We have to state a clear line. We have to do so against the background of a nation in trouble and presumably at this stage still not over the precipice. The measures that the Government contemplate will be unlikely to stem more than temporarily the holocaust to come.
8. Measures taken now can help to avoid additional unemployment next winter. The longer the delay, the more ineffective the measures, the worse unemployment will become.
9. We will support the Government in the measures necessary, but included in these measures must be the dropping of parts of the Industry Bill, nationalisation of land, ports, docks, aircraft, shipbuilding, etc. and other Finance Act measures. This will ensure that the Left hives off, or that we are left free not to support. We have already supported the Government on some vital issues, but we cannot be expected to do so whilst they pursue legislative programmes which undermine the confidence they seek in other ways to sustain. We should take a tough line, making it quite plain that we will support measures in the national interest but we are not prepared to be a running dog for Mr. Wilson. We are not so arrogant in ruling out a coalition as Mr. Wilson appears to be.
10. We should support immediate cuts in food and housing subsidies, and a freeze on employment in the public service at (or below) the present level. We should be able to save at least £1 bn this year (see Sir Geoffrey Howe's Finance Bill speech) - it could be more but to do so would be very painful indeed.
11. We would support a tightening of the Social Contract guidelines as suggested, and consider an index-linked freeze tied to an index on food, fuel, rent. This would compensate the lower paid for the effects of reducing subsidies and remove the fears they have of a steep decline in living standards.

12. In a crisis, we are prepared for crisis measures. We must unite against those who want to undermine our society. Furthermore we must show that our policies will give hope and opportunity to the many millions of hard working people - many Labour voters, but conservatives with a small 'c' - who are fed up to the teeth with the left wing and the unions, and long for us to give them a lead.

J.P.