

1

PRIME MINISTER

Mansion House Speech: Monday, 16 November

We need to begin work now on the Mansion House Speech.
You have decided that it is to be an international economic speech
and not a foreign affairs speech this year.

I suggest that the aim of the speech might be to offer an explanation of how countries are attempting to cope with the loss of the discipline of the fixed exchange rate system; with the wider aim of setting high domestic interest rates in context internationally. This would give the speech both a message to the mortgage-paying/industrialist public; and an international financial/economic interest for your immediate audience.

Please see attached outline.

Caroline has kept 3/4 hour for you to read your Italian briefs on Monday morning, after the meetings with the Chief Whip /Chairman. May we have 1/4 hour of that time to discuss this outline?

MCS

6 November, 1981

Suggested outline for a Mansion House Speech
on International Economic Matters

A. Financial stability of 50s and 60s - Bretton-Woods fixed exchange rate system - progressive liberalisation of tariffs and payments systems produced a rapid expansion of growth - increased technological innovation further accelerated growth - freeing of international investment flows supported sustained rise of living standards.

B. Financial instability since early 70s arising from:

(a) growing and endemic inflation brought about by excessive Government expenditure and/or improperly financed Government expenditure.

(b) events which are, to varying degrees, consequences of (a).

(i) destruction of Bretton-Woods fixed exchange rate system.

(ii) energy price increases.

(iii) structural changes arising from (ii).

(iv) more inflation and high interest rates.

C. Worldwide attempts to counter instability by maintaining or tightening discipline; in particular:

(i) control of or reduction in budget deficits. Long list of countries where this is happening. (This applies also to (ii) and (iii) below.)

/(ii)

(ii) cutting Government expenditure.

(iii) tight monetary policies - higher interest rates.

(iv) attempts to re-introduce (a half-way house to) fixed rate system - EMS.] Success here affords hope of conquering inflation - reversing the growth of unemployment.

D. Countries also try to maintain dynamism in their economies.

Success of countries in the Pacific Basin in maintaining high rates of growth in very difficult international environment - role of banks in international capital markets in dealing with huge payments imbalances and providing investment funds - creation of enterprise zones - fiscal measures to stimulate growth of new businesses - measures to roll back public sector.

Again, success here crucial if growth of unemployment is to be reversed.