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cc Mr. Ingham 2  
Mrs. Gilmore (HMT)

MR. LANKESTER

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*To see.*

Chancellor's Statement : Briefing for Ministers

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*21/11*

At the Paymaster's meeting this morning we discussed briefly my draft speaking note for Ministers, to be issued after the Chancellor has spoken on Monday, and I have now revised it in the light of Treasury comments. You and the other recipients may wish to see this, and you may wish to consider whether the Prime Minister should also see it; the missing paragraph on page 3 relates to MLR, and has been blanked out on all copies except for the master, which I shall retain until after the Chancellor has spoken.

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*me*

*J.V.*

J.M.M. VEREKER

21 November 1980

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ECONOMIC POLICY PRESENTATION NOTE NO.12

THE ECONOMIC STRATEGY

Objective

The Chancellor's statement on 24 November has naturally aroused considerable public interest not only in the short term measures, but in the whole direction of the Government's economic policies. It is important to reaffirm that the fundamental objectives are unchanged, and that the Government are working in the framework of a coherent strategy, rather than reacting to problems as they arise. In particular, the Government are determined to adhere to the medium term financial strategy set out in the Financial Statement at the time of the Budget. This note is therefore designed for use by Ministers in all their speeches, broadcasts and writing this week and in the weeks to come.

Presentation

The objectives of Government economic policy are unchanged. They are to achieve a permanent reduction in the rate of inflation, and to create the conditions for a sustainable growth of output and employment.

In order to achieve these objectives, the Government published, at the time of the last Budget, a medium term financial strategy. The key elements in that strategy were control of the money supply, and a steady reduction in public expenditure.

We said that the annual growth of money supply would be reduced to about 6 per cent in 1983-84; and we suggested some ranges for annual growth between now and then. There is no doubt that, partly because of technical distorting factors associated with the removal of the "corset" imposed by the previous administration, so far there is more money in the system than we intended. But we are confident that monetary growth will come down in the future; and that we are still on course for our target in 1983-84. The Chancellor's measures included new steps to make the technical control of monetary growth

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more effective and to ensure that fiscal policy next year is consistent with our objectives.

And we said that public spending would fall each year between now and 1983-84. As the Chancellor indicated on Monday, it will still be lower next year than this, although the fall is not quite as much as we had intended. That is in large <sup>part</sup> due to the worst international recession since the war, from which Britain is suffering particularly badly. At such a time considerable elements of public spending, such as social security payments and the borrowing needs of the nationalised industries, are bound to rise.

Despite these difficulties over the money supply and public spending - and let us be frank about them, the difficulties have been more severe than we expected - we are making good progress towards our objectives.

Above all, inflation is coming down rapidly - much faster than most people expected. Retail prices have risen by less than 1% in each of the last six months and wholesale prices have risen more slowly still. We expect the rate of inflation next year to be not far above single figures.

Pay settlements have moderated substantially. The figures published last week, of the increase in average earnings in the year ending in September, do not at all reflect the new climate of realism we have seen this autumn. In fact, the CBI estimate that a clear majority of the settlements in manufacturing industry this pay round have been in single figures. As for the public sector, we have told local authorities that we are making available only enough money to finance a 6% increase in their pay bills; and the Prime Minister has confirmed that the rest of the public service will be subject to the same sort of financial discipline.

The Chancellor's statement was not a "mini-budget", but an indication of some of the decisions the Government have taken affecting 1981-82. The final Budget judgement will not of course be made until next spring; but the Government are determined to

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keep the amount of public borrowing next year within reasonable limits, so some action has been taken now which will enable us to raise revenues. We have chosen employees National Insurance Contributions, and an additional tax on petroleum revenues, because they do not affect the group which have suffered most from the recession - the unemployed.

#### The Outlook

The way ahead is not an easy one. The recession will continue this year and well into next. Unemployment is bound to rise still further. Living standards are bound to fall, even for those who are still employed.

But when the upturn comes - and this recession, though deeper than others, will like all recessions end in a period of growth - the conditions for a sustainable period of increasing production and increasing employment will be there. Above all, inflation will simply not be let loose again.

Responsible pay bargaining isn't just a sacrifice that everyone is being asked to make this time round. It is an essential ingredient of our ability to seize the opportunity that the end of the recession will bring. Never again must people generally expect to be paid more and more pounds carrying less and less purchasing power. Stable prices, more jobs, and increased prosperity are within our grasp if we don't let greed overcome commonsense.

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