

ECONOMIC RECONSTRUCTION GROUP

Minutes of the meeting held in Room J of the House of Commons at 10.00 a.m. on Thursday, 4th December.

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Present: Sir Geoffrey Howe (in the Chair)  
 Mr. Biffen  
 Mr. Powell  
 Sir Keith Joseph  
 Sir Leonard Neal  
 Mr. Nott  
 Mr. Prior  
 Mr. Griffiths  
 Miss Bulloch  
 Mr. Gilbert  
 Mr. Ridley } (Secretaries)  
 Mr. Cardona }

Apologies: Mr. Gilmour  
 Mrs. Oppenheim

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Economic Management and Fine-Tuning

1. Mr. Budd was unable to attend, and so there was a discussion of Mr. Ridley's paper on Economic Management and Fine-Tuning.
2. It was suggested that the debate about fine-tuning was perhaps whether Governments should adjust rapidly to events, or whether they should set themselves long-term objectives.
3. The points raised by Mr. Ridley's paper were discussed. There was a prima facie case for intervention, because of random shocks and the trade cycle. But there were doubts about the value of the Treasury's forecasting model, the effectiveness of the available instruments of economic management, and about the consistencies and appropriateness of the Government's objectives.
4. Mr. Nott pointed out certain broad objectives which the Public Sector Policy Group had set: reductions in public expenditure, the budget deficit, and public manpower. This strategy should be held to, and the balance of payments and sterling ignored. Their importance was exaggerated.
5. There was a discussion about the short-term instruments of demand management. Direct taxation could not be changed rapidly enough; and there was always a political reason not to use indirect taxation. Employees' National Insurance contributions could, however, be raised relatively fast.
6. There was a discussion of the rival priorities in economic policy. Conservative speakers usually implied that controlling inflation was an overriding priority. Although floating rates could take care of sterling up to a point, they removed what some considered had once been the only effective discipline on Governments. It was agreed that the impossibility of holding a fixed rate in the post-1973 world meant that continued floating would be inevitable. It was also suggested that import controls were a form of fine-tuning.

7. There was a discussion about the difficulties of monetary and interest rate policy in a situation in which more than half of the households in the country were severely affected by every substantial rise in mortgage interest rates. It was agreed that possible changes in housing finance would be discussed by a separate housing policy group.
8. The problem of educating the public to expect to pay a price in the short-term for benefits further ahead in the future was discussed. It was agreed that Conservative speakers should emphasise that there were no easy solutions.
9. There was a discussion of exchange control, in the contexts of the EEC and of our other policies. The crucial factor in influencing long-term capital movements was the difference between rates of profit in the UK and abroad.
10. There was a short discussion about the growth of the public sector. It was agreed that there was a "ratchet effect" and that the public sector grew when the economy was either expanding or contracting. It was thought monetary stability also encouraged growth of the public sector.

#### Conclusions

11. The Chairman summed up our economic objectives in the following points:
  - 1) It was difficult to distinguish objectives of policy from instruments of policy;
  - 2) We should learn to live with the instruments we have;
  - 3) People should be educated away from their high expectations of Government policy;
  - 4) Sterling should float as cleanly as political pressures permit;
  - 5) Interest rates should be as mobile and free as political pressures permit; mortgages should if possible be insulated;
  - 6) The elimination of inflation should remain the pre-eminent objective, to be achieved with minimum unemployment;
  - 7) The long-term pursuit of the right monetary policy was an essential element in our broader economic strategy;
  - 8) Public expenditure must be contained.To these points were added the following:
  - 9) Governments should tinker less with the economy, and use more effective instruments less frequently;
  - 10) Direct taxation should be made more flexible, in order to avoid having to use public expenditure as a regulator;
  - 11) There should be an abjuration of the frequent use of hire purchase, VAT rates, car taxes, and the building industry as regulators;
  - 12) We should as far as possible be committed to general rather than selective intervention.
12. The next meeting would discuss monetary policy.

George Cardona