CONFIDENTIAL

Minutes of a Meeting held at 3.45 p.m. on 8th July 1975 in the Room of the Leader of the Opposition at the House of Commons.

Present:
Mrs. Thatcher
Mr. Whitelaw
Sir Keith Joseph
Sir Geoffrey Howe
Mr. Prior
The Hon. David Montagu
Mr. Grierson
Professor Walters
Mr. Brittan
Mr. Lepper
Mr. Griffiths
Professor Morrett
Mr. Howell
Mr. Nott
Mr. Ridley
Mr. Cardona

1. The Government's Economic Package

Mrs. Thatcher opened the meeting by inviting comments on the Government's forthcoming economic package. She said that the City appeared to want the Conservative Party to support the Government but it was often the case that although statutory wage policies were popular to begin with they became less popular as time went on.

Sir Geoffrey Howe summed up the conclusions of that morning's meeting of the Economic Reconstruction Policy Group, which broadly speaking were that if monetary and fiscal policies were correct then there was a great deal to be said for supporting the Government's proposals. The Package would have to be looked at as a whole.

2. The State of the £ and possible consequences of the Government's proposals

Mr. Montagu said that the £ had so far been surprisingly strong: the Bank of England had scarcely supported it in the last ten days. There was no evidence of short-term Arab money leaving the country. However an unsatisfactory package would lead to a run on the £. In his opinion foreigners would like policies which were backed by law.

Mr. Grierson said that foreigners based their views on what they read in the English press. It was essential that any measure that the Government took should be backed by authority. It was reported that the Singapore Government had already moved most of its money out of sterling.

Mr. Pepper said that the monetary policy of the U.S. Federal Reserve determined the state of the £: if the Federal Reserve eases its monetary policy the £ strengthens. For technical reasons the Federal Reserve will probably ease money in August.

Mr. Brittan said that there is no foreign pressure on the Conservative Party to support the Government and suggested that with a floating exchange rate and the possibility of using interest rates the strength of the £ was a secondary consideration.

3. Statutory Wages Policy

In the opinion of Mr. Walters a 10% norm was undesirable because it implied a fall in the rate of inflation too big to be credible. Holes would be found in any statutory policy. There was still excess demand in the economy. He thought that only public sector wages should be controlled.

Mr. Brittan took the view that by next winter inflation might well be down by 10% or more and was concerned that this apparent success would allow reflation in early 1976. There would be pressure for the controls to be kept - so their success would be dangerous. The Government's package should be given a difficult passage through Parliament.

Mr. Pepper and Mr. Griffiths agreed that there was a severe risk that wage controls would appear successful in the short term and that irresistible pressure for reflation would build up. There would be a dam-bursting effect at the end of the period of successful control. Mr. Griffiths thought that Mr. Healey's package should not be supported because both his monetary and fiscal policies showed unhealthy trends.

Mr. Merrett thought if the Government went ahead with their proposals to control prices, while not controlling wages, the profitability of the whole corporate sector might be wiped out, causing vicious deflation. A panic stricken Government would then reflate with severe inflationary consequences.

Mr. Brittan said that the Government's advisors had little confidence in the proposed sanctions. Mr. Healey liked cash limits, the Treasury loathed them. Mr. Brittan felt that the trade unions are important. A statutory policy should be rejected, above all because it gives the trade unions too much power. Inflation itself increases the power of the unions and a statutory policy increases it further.

Mr. Prior took the view that it was necessary to redress the balance of power within society against the trade unions before the economy could be put right.

4. The Money Supply

Mr. Pepper said that loan demand and hence the money supply figures would continue to be low.

Mr. Griffiths thought that a money supply explosion was likely in 1976.

It was agreed that the indicators of the monetary aggregates were inadequate; there was some discussion about which indicators should be watched. Mr. Brittan said that shock monetary contraction was undesirable. He added that it was politically difficult to control the money supply and interest rates together.

5. Unemployment

The meeting ended with Sir Geoffrey Howe inviting those present to think about two questions: first, how could the effects of unemployment be made harsher, for example for those elements of the labour force which were insufficiently mobile; and second, how could the effects of unemployment be made less harsh so that either frictional or disinflationary unemployment could be made less unpalatable and likely to cause less social strain?

The meeting ended at 5.30 p.m.