


PRIME MINISTER *sm* *Eros B.*

Mr. Biffen's speech to the National
Conference of the Junior Chamber of
Commerce in Scotland

Apparently, there is no final text
of this speech. Mr. Biffen spoke
from the attached summary.

Janice

20 April 1980

There are tentative and modest signs that the money supply - as measured by sterling M3 - is coming under control at last. The pattern of recent gilt edged sales will also serve to reinforce the hope that the Government's immediate monetary targets will be met.

How then should we greet this fledgling monetary swallow? In what sense does it presage a golden summer of falling inflation? The answer to that question contains and conceals the major economic fortunes of this Government.

There is no mechanistic and succinctly demonstrable link between a movement in money supply and a subsequent change in inflation. Enoch Powell and Lord Harris of High Cross (and the Institute of Economic Affairs) have recently suggested a rough time-lag of two years. That may be so, but I suspect the time lag varies on account of the level of international trade, the rate of domestic business activity and the many social traditions that affect individual and corporate economic behaviour. Monetary policy is pursued in a social as well as an economic environment - as Treasury Ministers fully acknowledge.

Given these assumptions, I assert the following three points. First, time is the most precious asset for a politician. If a week is a long time for some people in politics, then two years is almost eternity. It is therefore essential that there is the political will and resolve to see through the transitional period ahead. A policy cannot be abandoned because there is a price that has to be paid in output and employment in the short term in order to secure the prize of reducing inflation.

Secondly, the transitional period of the time-lag has to be shortened and its severity tempered wherever possible. This is not entirely or even mainly the function of government. If wage bargaining acknowledges the implications of the Government's economic policy rather than seeking to frustrate

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it, then there will be beneficial consequences. Indeed, given the objectives of monetary control being exercised by the Government, the level of pay settlements will be the major influence on the outlook for employment and company solvency. That much can be stated and explained by the Government, but in a free society the decisive judgement of the determinations remain with the people and not with the politicians.

There are, nonetheless, areas where the Government can assist - and one is the creation of a more favourable tax climate for smaller businesses. This is being proposed in the Budget, and in due course could make a valuable, albeit modest, contribution to the very significant employment provided by smaller enterprises in the private sector.

The third assertion, however, is the one which I believe is most central. However infant is this swallow - it is at least launched into flight. It will become clear - as the month proceeds - that the Government are succeeding in their initial objectives and they are conscious of and accept the time scales implicit in the policy.

That realisation will engender credibility in the policy with all its subsequent impact upon the financial, commercial and industrial communities. All this will help create a climate within which interest rates can fall. Furthermore, the transitional period between a fall in the expansion of money supply and the subsequent fall in inflation can be made more manageable in economic and social terms. In the best traditions of Lord Butler, the Treasury team will have been practising "the art of the possible".

✓ Mufaxed to Chequers 19/4

PRIME MINISTER

Mr. Biffen made a speech today on the Government's economic policy to the Edinburgh Junior Chamber of Commerce.

The Sunday Times tomorrow has a front-page lead on the speech which suggests that Mr. Biffen cast doubt on the basic monetary approach of the Government. The sentence they have latched on to and apparently are misinterpreting is: "There is no mechanistic and succinctly demonstrable link between a movement in money supply and a subsequent change in inflation. Enoch Powell and Lord Harris of High Cross (and the Institute of Economic Affairs) have recently suggested a rough time-lag of two years. That may be so. But I suspect the time-lag varies on account of the level of international trade, rate of domestic business activity and the many social traditions that affect individual and corporate economic behaviour. Monetary policy is pursued in a social as well as an economic environment - as Treasury Ministers fully acknowledge". The rest of the speech affirms the Government's approach. The Treasury have said that Mr. Biffen in the above sentences is saying that he believes absolutely in the need for money supply control, but there is no precisely predetermined time-scale between the control of money supply and a subsequent drop in inflation.

Mr. Biffen has agreed to give an interview to BBC Radio 4 "The World This Weekend" tomorrow where he can make the position clear.

(SIGNED) JAN LUKE
PRESS OFFICE

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