

INFLATION

(Paper by Sir Keith Joseph)

1. We all agree that inflation is our most urgent preoccupation.
2. It was our object to abate the size of the borrowing requirement and the rate of growth of the money-supply back from the high levels we thought necessary to reduce unemployment and to stimulate investment. \*Already from mid-1973  $M_1$  had ceased to grow and Tony's December package had initiated a decline in  $M_3$ .
3. We left Labour therefore an opportunity to continue to abate inflationary prospects by further deceleration of the monetary expansion.
4. It seems to be commonly agreed that this deceleration should, if unacceptable levels of unemployment are to be avoided, be very gradual. The Jenkins' 1969 curb which caused the recession of 1971 was too abrupt.
5. But if the country is to return to sound money by gradual steps then consistent policies - involving some unemployment, some bankruptcies and very tight control on public spending - will be needed for at least five years.
6. Are we likely to see such consistent policy? It looks at the moment as if a very sharp squeeze on industry will, unless policy changes, develop over the next 9 months, with heavy unemployment resulting in 1975/6.
7. Healey will be under pressure to avert unemployment, to avoid some bankruptcies and to increase public spending. He may as a result put money back into the system. All will depend on the degree. If he does too much the unemployment prospect will moderate but the inflation prospect will deteriorate from an already dangerous level.
8. Inflation at the present rate let alone worse spells disaster for us as a country, as a society and as a party. It is cruel beyond words for the poor and the thrifty, and it destroys the middle class. Moreover private enterprise, caught between rising costs and controlled prices, will be forced more and more to seek rescue - on Benn's terms.
9. There will be conflicting views on the right policies. But this is surely true - that government will need for some years to tread, if practicable, a narrow path between hyperinflation on the one side and intolerable unemployment on the other.
10. My suggestion is that we should seek to understand the implications for inflation and unemployment of developing government policies, and of our potential reactions to them, so as to try to keep this desperately difficult path in mind.  
Could we perhaps look to the CRD to master the subject, so far as it can be mastered, and to keep us regularly briefed?

11. Against this background the climate for wage claims and for price increases will be altering. I hope that we can find an incomes policy that is selective and involves as few decisions and as little bureaucracy as possible. As we used to say, price controls help the militants and reduce efficiency.

12. There are four specific suggestions:-

- (a) We should make it our policy always to pass the results of wage increases through to the consumer. I know the effect on prices. But only when the public feels the result of wage claims will they turn against them. Moreover unless the price increase comes through, alternative services will not be attractive. I believe that unsubsidised prices will bring cause and effect home to the public and the unions.
- (b) We should identify a few groups - such as those at power-stations and in water - who are indispensable, and seek to give them satisfactory conditions and status.
- (c) Since some increase in unemployment will be unavoidable if inflation is to be mastered we should, I suggest, review our initiatives on retraining, on regional policy and on mobility. The lack of housing to rent is a real handicap.
- (d) On indexation, would it perhaps be helpful to invite two experts with opposing views to argue before those of us interested? A limited sum per head would be a blessing for all, particularly for the thrifty and the house purchaser, unless the dangers are too great.

13. I wish that we could drop price and dividend control. They do great damage and will throttle private enterprise. I hope that we can work towards this objective.

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