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Stats - RPI

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NOTE FOR THE RECORD

The Chancellor of the Exchequer called on the Prime Minister at 0900 hours today. They covered the following points in discussion:

I Interest rates and credit

The Chancellor handed the Prime Minister the attached note. He said that it was too early to be thinking of a reduction in MLR: there would have to be clearer evidence that M3 was coming under control. He also rejected the notion of imposing direct controls. This would be counter to the Government's whole philosophy, and it would scarcely affect the wider monetary aggregates - and to the extent that it did, it would push interest rates up further. His main concern was the continued high level of lending to industry to finance excessive pay settlements. By contrast, lending to persons over the last 3 months comprised only 11% of the increase in the clearers' lending. The Prime Minister said that she was unhappy to hear that lending to persons was continuing to increase at all. Although it was only a relatively small proportion of the total increase in lending, it still made up a large amount in absolute terms. The Chancellor ought to consider ways of cutting back the use of credit cards - or at least, making sure that they showed the real rate of interest charged when advertising their use. On the latter point, the Chancellor replied that the Consumer Credit Act would in due course make the publication of the real rate of interest obligatory; he would let the Prime Minister have a note on this. He did not think there was a case for trying to control the use of credit cards directly.

II RPI prospects

The Chancellor said that the RPI prospects, even after July, were gloomy in view of the 20%+ earnings figures which were now emerging. It was absolutely crucial to

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get wage settlements coming down in both the public and private sectors. The Prime Minister said that the Chancellor ought to consider using some of the EEC Budget savings to moderate the increase in the RPI - for example, on gas prices. If the RPI continued to "go wrong", then wage settlements would not come down. The Chancellor said that he would need the EEC Budget savings to provide a margin against nationalised industry overspends, and to bring interest rates down. In any case, the amounts at stake could only have a very marginal effect on the RPI - the crucial element in the increases was the increase in wages.

III EEC Budget and Mr. Heseltine

The Prime Minister agreed with the Chancellor that EEC Budget savings should not be used to make good DOE's public expenditure cuts, as Mr. Heseltine was informally proposing.

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15 May 1980