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A POLICY FOR THE 1980s

Extract from a speech given by the Financial Secretary at the Annual General Meeting of the Midland Branch of the Institute of Directors, at Penns Hall Hotel, Sutton Coldfield, on Monday 14 January 1980

The 1970s were the decade of intervention - and the decade of inflation. We saw increasing interference by Government in all aspects of economic life with a panoply of controls over industry and the private sector as a whole. The previous Government came only belatedly to recognise their own prime responsibility for controlling their own spending and borrowing, and for limiting monetary growth. The result, of course, as we all know was confusion and miserable failure. The UK's economic growth rate slipped ever further behind our competitors and our inflation rate rose well above the average of other industrial countries.

We have now changed course radically, and I believe that there are good grounds for optimism for the 1980s. This Government can and will reduce the growth in the money supply. Real income growth depends on higher productivity and not on governments printing more and more money to chase fewer and fewer goods. The long-term objective of our policy is to protect the value of money. It is a gradual and moderate process - but it offers the only prospect of long-term results. Monetary policy is not a short-term expedient.

I recognise that such a policy is not easy and not painless. But there is no painless cure for inflation - and, having willed the

end, it is no good shrinking from the means. In any event, the cost of giving up the struggle, which would be rampant inflation, is the greatest cost of all. We have never disguised the fact that our policies will take time to have their full effect. That is why we are determined to stick to them through immediate difficulties and persist with them over several years until the benefits appear.

Our long-term strategy has involved difficult short-term decisions. Sometimes these may seem inconsistent with the long-run objectives. The rise in interest rates in November is a case in point. I recognise that high interest rates put up the cost of borrowing, and pose particular difficulties for small companies. High interest rates in the short-term, however, are dictated by the need to give priority to checking monetary growth and reducing inflation. The Government has to use the instruments available, but this does not mean that the Government intends to control the money supply only through high interest rates. Monetary control, to be effective, must be essentially directed towards borrowers rather than lenders; but the biggest borrower of all is government, and it is vital that government borrowing - the public sector borrowing requirement - is curbed. And if taxation is not to be increased, this means curbing public expenditure. Hence the steps we are taking to make further reductions in public spending plans for the coming year, over and above those in last November's White Paper. Hence, too, our determination to ensure that public expenditure in subsequent years is at a level that will allow the PSBR to become a less dominant and overbearing feature of the economy. As our fiscal stance is brought into line with our monetary policy, and as inflation comes down, so we can look forward to the prospect of lower interest rates.

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