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PRIME MINISTER

MACRO-ECONOMIC POLICY

I have been thinking since our talk last week about the case for giving Cabinet more regular opportunities to discuss macro-economic policy.

2. We have already agreed to have a discussion of this kind in May, ahead of our consideration of the substance of next year's PESC. As I mentioned the other day, I think that it would be a good idea for me to follow this up with the suggestion that we make such discussions a regular, but not too frequent, occurrence.

3. I should not, as you know, be suggesting simply that we bow to pressure. For I am increasingly convinced that the more we expose the whole Cabinet to economic realities and to the absence of any viable alternative to the substance of present policy, the more likely we are to secure their active support. If we cannot convince colleagues that we are right, then we shall find it difficult to convince the country. Inevitably there is a wide spread of views within Cabinet and not every colleague will ever be totally convinced. But I believe that by taking them more fully into our confidence we can secure more whole-hearted commitment to the message - and to the

/need to sell



need to sell it - to the country.

4. You will remember that all this was in our minds when we discussed the possibility of a macro-economic discussion in Cabinet, before the Budget. I was then favourably disposed to the idea, as I think you were too, and we were only put off by the unhelpful leak that occurred in The Times, which had the immediate effect of representing a Cabinet discussion as a "surrender" by both of us to outside pressure. We were also much influenced by the possibility, which that leak only made stronger, that if such a discussion were to take place and were to involve the disclosure of specific Budget measures, the whole Budget might well have leaked.

5. In suggesting a regular economic discussion, I certainly do not envisage that we should "put into commission" any particular economic decisions, such as the formulation of our monetary guidelines or (least of all) the Budget itself. Those matters must remain the responsibility of the Chancellor of the Exchequer, subject, of course, only to my clearing my proposals with you. But from all that I have heard, I do not think that more than one or two of our colleagues (if that) want to be involved in Budget-making itself, except insofar as their Departmental interests are concerned. Where they do want to be reassured on is the broad stance of policy. And I believe we can hold them to that.

6. The programme which I mentioned to you would be on something like the following lines. We would aim to have three macro-economic discussions, more or less equally spaced throughout the year. I should not necessarily put in a paper, but either I or, perhaps, Terry Burns would make an

/introductory statement



introductory statement describing how the economy had been developing in recent months, indicating whether it had been departing in any serious way from the path we had expected and describing the outlook for the period ahead. I would obviously give an indication if in my view existing policy was going awry; this would mean acknowledging the scope for some adjustments of policy.

7. It would clearly be necessary to time the first such discussion of the year well forward of the Budget so as to avoid a detailed discussion of Budget measures; and on this footing I think that the first meeting of the year ought best to take place in mid-January. By then I would have the Treasury forecast and would be able to talk in general terms about the outlook for the year ahead. But as I would not have crystallised my Budget thinking, I could refuse to be drawn into detail.

x Jhu
8. The next discussion would be four months later in mid-May, which would be the opportunity for a post-Budget stocktaking and for a discussion which would set the scene for the forthcoming public expenditure survey. This could be an invaluable opportunity for me to alert colleagues to what the requirements were likely to be of the survey, so that when we got down to detailed public expenditure discussions, these took place against the background of the underlying economic situation.

9. Finally, the third meeting would be in mid-September, i.e. immediately after the holidays and before I got caught up with the annual meetings of the Commonwealth Finance Ministers and the IMF. This would give Cabinet a good opportunity to examine how policy would be presented at the party conference.

/I would like to



10. I would like to suggest one other change. This would take the form of a short report to the Cabinet once a month on economic developments. Cabinet members are already provided with a note by the CSO on the main indicators. This is valuable as far as it goes, but I suspect that colleagues find it a rather clinical document and that it does not have much impact. What I am suggesting is that I ask Terry Burns to draft a couple of pages, slightly more impressionistic but rather more readable and informative. This would get ordinary Cabinet circulation alongside the CSO note. I do not think that it need always give rise to regular discussion. There might be occasions when some of our colleagues would want to pick something up in it and have a short impromptu discussion. I would not wish to resist that. Indeed the Cabinet agenda might include a monthly reference to 'Economic Affairs' to act as a peg for such a discussion.

11. You will want to think these matters over and perhaps we could have a further word about them, particularly about the related question of timing, including the date for a resumed discussion of the change to cash budgeting. I would like to have your views before you go to Saudi Arabia, since we are in any case to have our first Cabinet discussion in May and I should like to start to prepare the ground now.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

8 April 1981