

PRIME MINISTERCABINET MACRO-ECONOMIC DISCUSSION

1. Alan Walters provided some comments on the Treasury paper last weekend. As he said then, we see this discussion as an opportunity to teach some colleagues the hard realities of economic choice. For this purpose, the paper contains a useful examination of the various blind alleys. The first aim of the meeting should be to expose and nail them.
2. Of course this won't be achieved in one meeting. But some progress should be possible. Thereafter, we should be trying to change attitudes from scepticism to recommitment to the essential steps towards a healthier economy, with the defeat of inflation as the number one priority.
3. These objectives are pretty obvious. But the tactics for achieving them may be less so. We think that the best tactics will be:
 - (a) to invite Geoffrey to highlight the main points in his paper; and he must ensure that he makes the Government's economic objectives clear;
 - (b) to allow - even encourage - colleagues full rein in exploring the blind alleys;
 - (c) to let the experts (I really mean Alan and Terry Burns rather than the Treasury team, whom they will simply see as colleagues with whom they disagree) nail the fallacies, wherever possible with support from other non-Treasury colleagues;
 - (d) to limit your own role, as far as possible, to summing up; the summing up to remind them that this is the point at which so many Governments in the past have started to become less determined and purposeful, with some Ministers opting out because it all looks too tiring and too difficult. Everything depends on our ability to summon up the will and mental

energy to keep thinking and working, especially on the public spending problem.

4. One of the more insidious fallacies is an unspoken belief that it "doesn't really matter" if we fail to get inflation right down to 3% or so, or even less. Many unthinking colleagues believe that such an objective is simply "unrealistic", because without any historical perspective, they have spent virtually the whole of their political career in a world where inflation is part of the scenery. Geoffrey and others should show that this is not so, explaining why we have to set our sights on virtually eliminating inflation if we are ever to get back to real economic growth. I think that Alan could well be invited to comment on this particular point, showing how negligible inflation and even falling prices in past periods of history have coincided with economic growth. The received wisdom in this area is completely mistaken.

5. I understand that Geoffrey is canvassing some of the colleagues in order to get them thinking the right way. But it is still important that you and he are in agreement on the purpose and tactics beforehand. Hence this minute.



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