

PRIME MINISTER

Mr. Pennington

TL

ECONOMIC STRATEGY BRIEFING

I attach a draft brief for press officers for use after Cabinet tomorrow. It is in two parts:

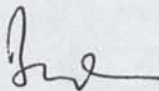
- a short on-the-record statement; I see no reason to be coy about the Cabinet since everyone knows it is taking place and what its subject is;
- a longer speaking note of useful points to get over, drawn from the papers; it is important we do not miss the opportunity afforded by the Cabinet to mould public opinion.

2. It may be possible, of course, to strengthen the on-the-record summary after the meeting - eg if it is possible to say that the strategy was reaffirmed.

3. The broadcasting media are trying to get Ministers to go on programmes tomorrow after Cabinet. I have told Departments not to respond - and certainly not without clearing with me on your behalf. I take it that you do not want the Cabinet discussion aired on radio or television or in the newspapers after the meeting.

4. Patrick Jenkin, by arrangement, is volunteering himself for the 'Today' programme to deal with the ambulance dispute. I have been in touch with his office and he will deal with wider economic/pay issues only in general terms.

5. Content?



B. INGHAM

16 June, 1981

DRAFT SPEAKING NOTE FOR PRESS OFFICERS

ECONOMIC CABINET - 17 JUNE, 1981

On-the-Record

The Cabinet met this morning for two hours to review the Government's economic strategy. All members were present.

A similar meeting was held on 3 July last year.

The Cabinet held a wide-ranging discussion on the basis of stocktaking papers submitted by the Chancellor of the Exchequer.

The meeting was not required to take decisions.

The central objective of Government economic policy remains to conquer inflation and keep it under control. This is the only basis on which sustainable growth and genuine jobs can be secured.

Points to get over in background briefing

The Government is trying to treat a long-standing national disease, the symptoms of which are:

- chronic inflation
- low productivity
- lack of competitiveness
- poor management
- progressive devaluation of the currency

It is seeking to achieve sustainable growth by conquering inflation and improving efficiency.

This involves changing attitudes at a time of deep international recession primarily caused by a doubling in oil prices (from \$17-\$34) since General Election.

The British experience has been particularly difficult. This reflects its very serious decline in competitiveness during the 1970s.

Over 10 years, 1970-80, output rose only 16% while money incomes went up 335%. In addition, North Sea oil held up Exchange Rate which would otherwise have fallen with our declining competitiveness.

Our problem is therefore deep-seated.

Inflation has fallen substantially and productivity is up.

But inflation is still far too high. Moreover, fall in value of £ has made problem of containing inflation more difficult.

We must therefore not ease up on elements within our control - our own unit costs and expenditure.

Recession deeper in Britain because we are overmanned, uncompetitive, and we have paid ourselves excessive wage increases.

As a consequence real industrial profitability has plummeted - from an average of 14% to zero in 20 years. We must rebuild company profitability as the economy starts to grow.

Our competitors - notably Japan and Germany - show just how higher productivity, competitiveness and adoption of new technology produce jobs and growth.

It is clear that because of the long-standing nature of our problem unemployment is likely to rise for some time yet, though more slowly. Important to handle long-term employment and help youngsters.

It is also clear that if taxes are to be reduced public expenditure must be reduced over the years ahead.

Expenditure in current year £5 bn below Labour's plans; and that planned for next year £10 bn below Labour's plans.

But in cash terms it is higher than forecast a year ago. Must do better.

And we must ensure that such public investment that is undertaken makes the economy more productive and competitive.

Recovery likely to be slow, but we shall not recover unless we tackle chronic weakness.

Government is determined to fight inflation and stick with it. And to convince people it intends to do just that.

From this all else - more jobs, competitiveness, growth - follows.

But inflation will not be conquered unless pay settlements on average are held to low single figures. This is inescapable.

After years of paying ourselves too much we cannot afford anything unless fully offset by productivity.

Thus we need - and must have - a further reduction in the present average level of settlements of just under 10%.