CONFIDENTIAL

MR. SCHOLAR

c.c. Mr. Hoskyns
Mr. Walters
Press Office

Prime Minister's Press Conference in Melbourne: Economic Issues

We had a word this afternoon about the possibility of the Prime Minister holding a Press Conference in Melbourne next week; I have looked through some of the recent media comment on developments in the markets over the last two weeks, and at relevant bits of the Prime Minister's speeches and interviews. What follows, and the material attached to it, has very much in mind the fact that neither the Prime Minister nor Bernard Ingham will have been exposed in the normal way to day-to-day reporting of events, and may therefore wish to catch up on some of the flavour.

General Line to take

What usually comes across after a Press Conference is not so much detailed answers to particular questions as an overall attitude to recent developments. I think this overall attitude which it would be appropriate for the Prime Minister to display should be based on two points:

(i) Let's not panic because of a short term reversal, which has been largely due to high US interest rates, and which we hope will not last for long.

(ii) The papers contain much talk about when will the suffering end, or where is the light at the end of the tunnel - but let's not forget that those in work did not overall in the last pay round take a real cut in pay. For most of them, the significant fall in living standards which is an essential part of our return to competitiveness has not even begun.

The Prime Minister might like to glance through the transcripts of the Chancellor's defence of Government policies in the face of the rise in interest rates on TV and radio on 1 October (Flag A).

/ Obvious Questions

Obvious Questions

As I said when we discussed, the non-specialist nature of the journalists who are accompanying the Prime Minister makes it very likely that questions will be posed in the broadest and most fundamental way, along these lines:

When is the upturn coming?

Governments don't make economic upturns. I see the upturn coming when you (the British people) are competitive.

Where are the signs of success?

Inflation is now on a downward trend (very convincing argument for this in Terry Burns' Washington speech on 24 September, extract of which is at Flag B ; productivity; realism on wages; growth of small businesses).

Is high unemployment going to be a permanent feature of Tory policy?

Unemployment probably now near its peak; it won't come down fast; but the UK is in the same boat as other western economies.

Subtler Questions

Alert, or more economically minded journalists, might try either of these tacks:

The money supply figures (published here on 6 October) show that monetarism has failed. As Brian Griffiths points out in his article in today's Daily Telegraph (Flag C), present circumstances have arisen not because monetarism has failed, but because the Government still has a long way to go in implementing the policies, especially on the public expenditure side, that are central to the monetarist approach. But the Prime Minister should also be aware that today's Economist, while acknowledging the international issues, does argue that the Bank of England's resistance to indexed securities means that interest rates are higher than they need to be (Flag D).

/ Interest

Interest rates, exchange rates, inflation, unemployment, and money supply are all now moving in the wrong direction; isn't it time to change? (This question might also be formulated in terms of even the Government's friends, such as the Tory Press and the barons of industry, are saying that it's time for a change.)

Just because one course of action is painful is not a reason for supposing that another one will be better. In fact, reflation would mean higher interest rates, a lower exchange rate, more inflation, faster depreciation of the value of money, and eventually even less ability to compete, so fewer jobs.

Awkward Questions

There is no limit to the recent remarks of the Prime Minister or the Chancellor which might be quoted back at them in present circumstances. Fortunately, two of the most obvious sources - the Jimmy Young interview, and the interview with George Negus, do not on a quick reading seem to have covered the prospects for interest rates and their role in economic recovery. And the Prime Minister's speeches to the CBI, both in Wales on 11 December and at the Annual Dinner in London on 16 June, contain nothing that could be used against her. The principal difficulties may arise over what has been said in the House. I know that Mike Pattison is arranging for this to be looked at; he may draw your attention to three particular pieces:

(i) In his Budget Statement on 10 March, the Chancellor said "These tax changes should enable us to achieve our monetary objectives without having to face intolerably high interest rates."

(ii) At the end of the Unemployment Debate on 24 June, the Prime Minister said that "There are now clear signs that the worst of the recession is over", but recent indicators (longer leading cyclical trends and the CBI business opinion survey) do not seem to bear this out.

(iii) In her reply to the Opposition's Censure Motion on 27 July, the Prime Minister said "If the pound plunges with consequent increases in interest rates and inflationary expectations, bang will go all our hopes for more jobs. That will be the effect of the rt. hon. gentleman's policies".

I think it sufficiently likely that someone might refer to that particular debate for it to be worth while attaching the text of the whole of the Prime Minister's speech, which is full of useful points that could be quoted back at journalists (Flag F).

I think that tactically the right way to answer these kinds of questions is to look forward rather than back. That is, to explain that the Government has a clear vision of what needs to be done to get the economy competitive again. That includes continued monetary restraint to keep inflation on its downward path, and an intensified effort on the supply side of the economy to create the conditions for sustainable growth of output and employment.

J.

2 October, 1981.