

# Briefing Note

THE BATTLE AGAINST INFLATION

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The increase in the retail price index in the year to April 1982 was 9.4 per cent, compared with 10.4 per cent in the year to March, 11 per cent in the year to February and 12 per cent in the year to January. The April result was the best since January 1979.

Speaking on the day that the figure was announced, Sir Geoffrey Howe said, "Today is a landmark in the economic recovery of the country and a landmark in the fulfilment of the Government's economic policy" (Denham, 21st May 1982).

Mr. Patrick Jenkin, Secretary of State for Industry, has said that, "It is impossible to exaggerate the harm which inflation does to a nation" (Datchet, 12th May 1982). Sir Geoffrey Howe has warned, "Without a permanent solution to inflation, the country could have no worthwhile future at all" (ibid.).

- \* Inflation erodes competitiveness,
- \* It undermines confidence and thus discourages investment.
- \* It forces up interest rates.
- \* It damages industrial relations.
- \* It penalises people who have worked and saved for the future.
- \* It destroys jobs.

For all of these reasons, the Government has been determined to get inflation down, permanently, into low single figures. Two years ago, inflation in the UK was double the rate of the other EEC countries; it is now below the EEC average. Yet Mr. Norman Tebbit, Secretary of State for Employment, has warned, "Although our inflation rate is now better than many countries such as France and Italy, it is still higher than in West Germany, the United States and Japan. So the Government will continue to lead the fight against inflation until our record is as good as the best of our international competitors" (London, 21st May 1982).

Inflation, pay and jobs. In a speech in Cleveland and Whitby on 21st May 1982, Mr. Leon Brittan said, "We in Britain have more reason than any to understand that inflation, and the expectations which it fuels, are a major cause of high and rising unemployment. Over the years, inflation and unemployment have risen together ... With the onset of world recession, deep-seated weaknesses of the British economy which inflation nurtured and so worsened, caught up with us in the tragedy of high unemployment".

Further progress with economic recovery will depend on continued pay moderation and continued improvements in productivity. Mr. Tebbit said, "Single figure inflation goes hand in hand with single figure pay settlements. The majority of British workers have accepted that vital link during the last two years. Three years in a row would put Britain firmly on a route which leads on from reasonable pay deals to lower inflation, more competitive pricing and expanding commerce and industry. That is the virtuous route to creating more jobs and if we take it we can make the 1980s a decade of pride and prosperity for the country" (ibid.).

Labour's policy. The Labour Party is the Party associated with the highest rate of inflation ever recorded in the UK. Between 1974 and 1979, they experienced at first hand the damage which inflation does. That is why the first priority in Labour's 1979 Manifesto was, "We must keep a curb on inflation and prices".

Since 1979, however, the left of the Labour Party has been in the ascendancy. Mr. Michael Foot has said, "We are committed to the biggest programme of economic expansion that's ever been undertaken by any post-war government" ('Tribune', 12th February 1982). Mr. Peter Shore, Labour's Shadow Chancellor, has been frank about the source of the money for this massive expansion. "Of course I would borrow it ... In a recession it makes sense to borrow ... I repeat, borrow" (Hansard, 28th January 1982, Col. 1020). He has also been frank about the dangers in this policy:

"The country ... will want a clear Labour commitment underwritten by the party and the unions, to deal directly with the problem of cost inflation. Why? Because given the scale of our problems, the economy will need a strong reflation of demand - and if full employment is to be effectively pursued, that extra demand must go to finance expansion and new jobs - not just to higher pay for those already at work" ('The Observer', 23rd May 1982).

Mr. Michael Foot's answer to this is, "We want a new Social Contract .... A new Social Contract is what the country is crying out for" ('The Times', 16th March 1982). But the country still remembers how the last so-called contract culminated in the Winter of Discontent. In any case, as Mr. Tony Benn has pointed out, "The TUC and Labour Party conferences last year clearly rejected the policies that have failed, which are normally described as pay policies" (Hansard, 28th January 1982, Col. 1036).

Sir Geoffrey Howe has summed up, "If we had followed the advice of the Labour Party to forget about inflation and borrow, borrow, borrow, our hopes for a sustainable economic recovery would have been ditched for good. We would have ended up as they did, under the thumb of the IMF" (Denham, 21st May 1982).

Future prospects for inflation. Sir Geoffrey has said, "At the time of the Budget we forecast that inflation would fall to 9 per cent by the end of this year. It now seems quite possible that we may do rather better than that" (London, 21st May 1982). Mr. Tebbit considered that, "We now have the best prospects on inflation that this country has had since the 1960s" (Lower Morden, 20th May 1982).

Mr. Jenkin has referred to the pent-up inflationary pressures which the Government inherited in 1979. "To begin with, we had to grapple with the consequences of the collapse of Labour's pay policy and the aftermath of the 'Winter of Discontent'. We had to honour the clutch of post-dated cheques made out in favour of public sector employees. We had to unwind the legacy of subsidies to the nationalised industries, which, while temporarily and artificially holding down prices, imposed enormous burdens on the public purse. If that were not enough, we had to cope with the 1979 oil shock, which sent inflation soaring worldwide" (Datchet, 12th May 1982).

Mr. Tebbit has observed that this time, "there are no inflationary time bombs stored up in the pipeline. (This time) low inflation is not just a short-term gimmick" (London, 21st May 1982).

Sir Geoffrey Howe has said, "On present forecasts, we seem likely to be the first government in more than thirty years to achieve a lower average inflation rate than its predecessor" (Denham, 21st May 1982).