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*Econ Pol*  
Prime Minister (2)

*Dr Bray argued this morning that Treasury Ministers had fiddled with the model, to make it produce these results.*

Treasury Chambers, Parliament Street, SW1P 3AG

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8 April 1982

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*MUS 8/4*

*Dear Michael,*

As you will have seen in the Press, the NEDC discussed yesterday a Treasury paper - produced in response to requests made by the TUC at the Council meeting in January - on various macro-economic simulations carried out by means of the Treasury "model" to test the likely effect of various possible adjustments to economic policy or behaviour. The Chancellor believes that Cabinet colleagues might find this of some background interest, and I attach a copy accordingly.

One of the paper's messages is that the model itself has inescapable limitations and needs to be used with a proper understanding of these, and also with a substantial accompaniment of judgement. This itself is a useful point to get across, especially given the use sometimes made of the model by critics. On the substance of the simulations, the general message is that the kinds of policy relaxation tested - more public spending, less VAT, lower interest rates - all produce only modest short-term benefits which fade away entirely with time and moreover all generate, sooner or later, higher inflation. On the other hand, improvements in economic behaviour - pay restraint, higher productivity - are beneficial in every way. This is another very useful way of bringing home that economic success must depend above all on what industry and work people do, rather than on what Government does.

The discussion in the Council on Tuesday was low key and constructive. Criticism and disagreements were voiced on various aspects of detail, but Mr Murray for the TUC expressed a desire to continue jointly to explore work of this kind to deepen understanding. He did however ask that the paper should not be made available outside in the usual way, largely because (we gathered) he might feel compelled to take a more hostile stance if he had to express reactions in public. The Council accepted accordingly that the document should be formally held back, though it is plain that (probably through NEDO) some press commentators have in fact seen it; and following a request from Dr Jeremy Bray, the Chancellor has agreed that

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it should be available to the Treasury and Civil Service Committee a copy should be placed in the library of the House of Commons.

I am sending copies of this letter, and of the paper, to the Private Secretaries to all Cabinet members, and also to David Wright and Gerry Spence.

*.Yours own  
Peter*

P.S. JENKINS  
Private Secretary

CONQUEROR

