

Prime Minister

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at Patrick

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Mingford's general assessment - p. 1.

A very encouraging analysis.

Quarterly Economic Bulletin of the Liverpool Research Group

analysis.

But I'm

a bit afraid many people will think

the growth forecasts highly optimistic.

1. The post-Budget forecast of the Liverpool Research Group is for GDP growth of 2½% in 1982, followed by two years of rapid (4½%) growth. Inflation is expected to decline to around 4% in 1983 and 1984, as the private sector continues to cut wage and price increases in the drive to revive sales and job prospects. However, unemployment falls only gradually towards 2 million in spite of the sustained cyclical recovery, because of continued problems within the labour market posed mainly by union power and high unemployment benefits relative to net earnings, especially for the lower paid.

MLs 1/6

2. The Group expects that the PSBR target of £9½ billion for 1982/83 will be undershot by around £1 billion and that monetary targets will achieve a decline in the growth rate of M1 to 4% by 1983 in spite of some ambiguities in monetary policy. Given political uncertainties surrounding policy beyond the election, an average of the different fiscal and monetary policies suggested by the 3 party groups is projected for 1984 and beyond; Tory policies are now given a higher weight reflecting their better standing in the polls. This implies long term inflationary expectations at around 8%; long term interest rates consequently are expected to drop to around 10½% by end year. Political factors, especially the Falklands crisis and the potential volatility of American real interest rates are the major uncertainties in the cyclical outlook.

3. The Bulletin repeats the arguments for a ceiling on unemployment benefits as a percentage of net previous earnings and for tax cuts on the lower paid, financed either by expenditure cuts or by a rise in VAT. A rise in VAT accompanied by a relaxation of

of monetary targets would not be inflationary, nor deflationary if sufficient warning of it were given.

4. Two special articles comment on monetary policies in the US and Europe and on proposals for arbitration-based incomes policies. Final offer arbitration with employment maximisation as the arbitrator's sole criterion would destroy free bargaining in all but name, overriding it with the arbitrator's preferences; this would lay the labour market open to serious arbitrator errors, besides violating basic economic freedoms accepted in Britain. Alteration of the legal framework and more vigorous prosecution of the public interest in reducing labour monopoly power would, the Bulletin argues, achieve the same objectives without these costs.