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Sir Kenneth Couzens KCB
Second Permanent Secretary
Overseas Finance

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M Alexander Esq
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Dear Michael

PRIME MINISTER'S VISIT TO THE HAGUE ON FRIDAY, 6 FEBRUARY

In case the Prime Minister finds that it would be useful to refer to recent UK achievements in reducing inflation at some point in her visit to the Hague, I attach:

- i. an extract from the speech the Chancellor made in Paris on 27 January. The paragraph numbered 16 refers;
- ii. a table comparing the recent inflation experience of the seven major countries plus the Netherlands, Belgium, Denmark and Ireland. What the Chancellor said was based on this table. It shows how good the Dutch record on inflation has been, but also how rapidly our own position in the international inflation league has been improving. (It would however be dangerous to treat our 4.3% rate between May and November 1980 as suggesting a rate of $8\frac{1}{2}$ or 9% for the year up to April 1981. There tends to be bunching of public sector price increases in the early months of the year.)

Yours ever

Ken

K E Couzens

Economic Policies

15. A stable economic climate is of equal importance to political stability. The most important element in such a climate is stability in the value of money. Inflation is the enemy of economic stability - and so of economic progress. Like you, we have made the fight against inflation a central theme of our policies. Like you, we have accepted that a policy of so-called "reflation" cannot provide a lasting solution to the problem of unemployment. We have learnt that reflation brings only a temporary boost to output, followed by faster inflation and even higher unemployment. Like you too, we have had to restrain public expenditure to support our anti-inflationary policy.

16. This is an area where we have recently seen considerable improvement. Our annual inflation rate reached a peak of nearly 22 per cent last May. But in each month since then our index of retail prices has risen by less than one per cent. On the figures available to me, this puts our inflation rate in that period below that of France or the USA. We are determined to consolidate this success and not be deflected from our policies. They are essential if our economy is to recover and begin to grow again.

/Other changes

INFLATION

(Percentage increased in consumer prices over specified periods)

	<u>US</u>	<u>Canada</u>	<u>Japan</u>	<u>Germany</u>	<u>France</u>	<u>Italy</u>	<u>Belgium</u>	<u>Netherlands</u>	<u>Denmark</u>	<u>Ireland</u>	<u>UK</u>
Year to May 1980	14.4	9.4	8.2	6.0	13.7	20.8	6.5	6.6	10.7	20.2	21.9
Year to November 1980	12.6	11.2	8.4	5.5	13.5	21.1	7.6	6.7	8.1	20.2	15.3
May-November 1980	5.0	6.5	2.3	1.7	6.4	10.4	4.3	2.7	3.3	6.1	4.3