PRIME MINISTER 27 October 1989

LABOUR AND THE ECONOMY

You may have heard Mr Kinnock on this morning's Today Programme. He was talking about Labours' economic policy. It was vintage gobbledygook. If this was a student essay it would hardly rate a gamma!

Attached is a transcript of his interview. You might find some useful ammunition here for your own interview tomorrow with Brian Walden.

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TRANSCRIPT FROM TODAY, BBC RADIO 4, 27 OCTOBER 1989

INTERVIEWER: What's your advice then if you want the Government to get its policies right to Mrs Thatcher this morning?

KINNOCK: First, of course, she's got to introduce an industrial strategy that she's being evading right throughout her whole time as Prime Minister. Secondly there's got to be an alternative to the exclusive reliance on interest rates, and it does mean that we emulate several of our competitors and use various forms of credit control that can gradually bring down demand in the economy without hammering every household and every business; the very businesses that we depend upon to improve performance, to export their goods, to bring down the balance of payment deficit that Mrs Thatcher's policies, Mr Lawson's policies, the whole Government's policies, have cost.

INTERVIEWER: But when you say 'bring in credit controls' we tried to get from John Smith, your Shadow Chancellor, this morning, exactly what was meant by that and he seems to suggest that all it involved was asking the banks not to lend as much money.

KINNOCK: No, I think that you very seriously misreport John Smith on that.

INTERVIEWER: So can we have this policy in detail.

KINNOCK: Yes all right, since there might have been people not listening I'll tell them what he did say. And that is that the Government should by now already have gone to the major banks and financial institutions, said that there is no one who can take any benefit out of the current position and that everybody knows what damage higher interest rates do and therefore they should restrain their lending policies. Now the possibility of getting a productive response to that is strong because they are major and

Government that's hooked on high interest rates will put them up further and that would deliver a devastating blow to the economy.

INTERVIEWER: I'm sorry to press you on this point of credit controls but wouldn't your critics say to you that if you start this this is the first step towards a siege economy? It would in a sense be going back to where we were in the '70s with exchange controls as the next step because as you yourself say there would be seepage if you just asked the banks to apply some sort of credit rationing.

KINNOCK: Yes but a siege economy, you cannot have a siege economy with a balance of payments deficit of the size that we've got simply because you've got to deal with the whole of the world to try and get that balance of payments deficit down. And the economies, and I repeat to you, and I'm sure you know it that the economies that do employ these reasonable systems of demand management cannot be described as siege economies. They are amongst the most successful trade economies in the world.

INTERVIEWER: Mr Kinnock, if that didn't work what would you though do? I mean in other words wouldn't you have to protect the pound? Wouldn't you have to in a sense use interest rates in the way in which this Government is now using them?

KINNOCK: Well, there are a number of other steps of course that we've been recommending that would assist the pound certainly in the short and medium term and I think assist the economy in the longer term. I've mentioned the demand, sorry, the supply policies that are necessary; the restructuring and redevelopment of the industrial base. You've heard me saying that so often. But secondly for a long time past we've been saying to the Government "Establish serious conditions and then negotiate those conditions for entry into the exchange rate mechanism of the European Monetary System." And the fact is that if they'd done it instead of fool around like Mrs Thatcher has talking about when the time is right and doing nothing to make the time right and then going to the European Summit and trying to cop out of agreements there. If they'd been serious then we would not have

When there was a system of exchange controls!

responsible institutions and it is certainly much better than the blunderbuss policy of inflicting high interest rates on everybody. The second thing is that first of all under a Tory Government indeed in the early '60s but on several occasions under all Governments since with the exception of the current Government there's been a system of special deposits which has simply taken money out of circulation and brought down ... and in that way it's been very successful, indeed more successful than the Governments that introduced it actually anticipated at the time. And that's a reasonable way to go about things, partly because it's better than interest rates but also because it bears a close similarity to the system of control and necessary balance that's employed in most successful economies.

INTERVIEWER: But can you do that in an international marketplace like London? Could a Chancellor go along to a Japanese bank or an American bank and say, "Stop lending money. Help us." He'd get a dusty answer.

KINNOCK: Yes, well because of the fact that now if it really was the case as Nigel Lawson continually protested and you will hear some Tories saying, that the kind of regulation that the institutions would then in cooperation with the Government introduce under a current control policy could be evaded. Why aren't they evading 15% and higher interest rates now simply by going to the international market and borrowing money at the much lower interest rates of our competitors? The Germans 8%, the French 7¾%. Why aren't they doing that now? The fact is of course there will always be some seepage. As John said earlier and we have said many times before, no credit control policy is hermetically sealed, and that includes high interest rate policies to bring down demand. But the fact remains that over the great breadth of credit expansion you would get much more success with much less damage by employing that system than you do by employing a high interest rate system. So addicted are they that today when the pound plummets, and there is no need for it to plummet. There is no need for the markets to respond in the way that they do. But when the pound goes down today the danger will be that this

Talking the pound down

been in the situation where the only thing that the Government felt it could do was charge 15% interest rates. And we certainly would not be faced this morning with a crisis on the scale that has been inflicted on our country by the departure of Nigel Lawson and the utter incompetence of the Prime Minister.

INTERVIEWER: Mr Kinnock, thank you.

KINNOCK: Thank you.