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PRIME MINISTER

I attach the latest macro-economic report from the Liverpool Group, together with a letter to you from Professor Patrick Minford.

The report forecasts that the recovery in output which began in the summer will be slowed down by recent events in financial markets but will gather pace in the middle of 1982, as short-term interest rates decline. It forecasts GDP growth at 2.5 per cent in 1982 and 4.5 per cent in 1983; and inflation falling to 7.5 per cent in 1982 and 4 per cent in 1983. It makes a number of proposals for reducing unemployment - proposals for union ~~and~~ law reform, to reduce social security benefits to the unemployed, elimination of central Government subsidies of council house rents, ~~from~~ a general public expenditure cuts of 5 per cent from the 1981 White Paper; and a raising of tax thresholds, together with a lowering of the standard rate of tax to 25 p.

If you agree, I will write to Professor Minford thanking him for writing, but declining a discussion on diary grounds*.

Should we to
have a talk with
him - Alan
P.M. needs to
to handle it
in Government
MS

26 October 1981

* since dictating this note
Alan Walters has suggested
that a short discussion with
Patrick Minford would be good
value. Shall we try and
find 1/2 hour for this? (Keeping
the discussion ^{to a} v. small group:
say Minford, A Walters and
T Burns/P. Middleton?)
MS



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APLM/PB

21st October 1981

The Rt.Hon.Margaret Thatcher M.P.,
Prime Minister,
10 Downing Street,
London SW 1.

Dear Prime Minister,

I am taking the liberty of sending you our latest economic analysis because it formulates specific suggestions for reducing unemployment without damaging - indeed while, in my view, strengthening - the anti-inflation strategy. I would be delighted to come and discuss it with you (if you were able to spare the time) and with your advisers.

Yours sincerely,

Patrick Minford

(Patrick Minford)

P.S. It was kind of you to write to me earlier in the year about my Times article. It was a pleasure to write it!

*PPS R24
Att*

EMBARGO: 12 NOON MONDAY 26TH OCTOBER

PRESS RELEASE

Quarterly Economic Bulletin - The Liverpool Group

The Liverpool Research Group in Macroeconomics today released an updated forecast for the UK economy, and proposals for union law reform, taxes, and public spending and social security designed to cut unemployment by 1.25 million within the next three years.

The forecast is that the output recovery materialising in the summer will be slowed down by recent events in financial markets but will gather pace in the middle of 1982, as short term interest rates decline. GDP growth is forecast at 2.5% in 1982 and 4.5% in 1983.

Because of the monetary and market pressures, wage settlements will continue to decline to about 4% in the 1981/2 wage round. Inflation is expected to fall to 7.5% in 1982 and 4% in 1983.

The exchange rate is likely to stabilise around its current level. But longer term interest rates will remain fairly high because the commitment of opposition parties to varying degrees of reflation worsens the inflation possibilities after the next election.

The Group's unemployment proposals, which have been worked out so as to have no net cost to the Public Sector Borrowing Requirement, are designed to increase the incentives to create and take jobs. They can be grouped into 5 parts;

1. The 1906 (Immunities) Act, except for the clause allowing peaceful picketing, should be repealed, the Closed Shop declared illegal, and a Labour Monopolies Commission set up.
2. Social Security Benefits to the unemployed should be indexed to the lower of wages and prices, to reflect the nation's productive capacity more accurately; and a ceiling for total unemployment benefits per household of 75% of previous net earnings should be phased in.
3. In order to improve labour mobility, subsidies by central government of council house rents should be eliminated; and remaining rent/lease controls should be abolished.
4. There should be general public expenditure cuts of 5% on total programmes on top of those planned in the 1981 White Paper. These should, with previous proposals, save the PSBR £11 billion.
5. With the proceeds, child benefit allowance should be raised £2 per child; tax thresholds raised by 15%; a lower tax band of 15p (on the first £1000) and a standard rate of 25p instituted; and employers' National Insurance Contributions cut by 2%.

The whole package is estimated to raise the productive capacity of the economy by 6%, and to lower unemployment to below 1 million by 1984; it is also expected to strengthen the counter inflation strategy by improving the supply side of the economy.

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cc: Alan Wattak
Andrew Duguid
T. Burns, HWT

Prof. Minford

13 November 1981

Following our telephone conversation this morning I am writing to confirm that the Prime Minister looks forward to a general discussion at 11 am on Wednesday, 2 December. I would expect the meeting to last around half an hour.

With best wishes,

MICHAEL SCHOLAR

Professor A.P.L. Minford

MS

File

255

cc: Alan Watts.

9 November 1981

The Prime Minister was most grateful for your letter of 21 October, together with the latest University of Liverpool Quarterly Economic Bulletin. She has read this with much interest.

Perhaps when you are next in London you would give me a ring (01-930-4433) and we will try to find half an hour in the Prime Minister's diary for a discussion. I am sure that in the event it is going to be very difficult to fit this in: but I know that the Prime Minister would welcome a talk.

M. C. SCHOLAR

Professor A. P. L. Minford.

AS