

SECRET

Prime Minister

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Ms 13/10

UNEMPLOYMENT, MINFORD'S REPORT AND THE CHANCELLOR'S MEMORANDUM

As the Chancellor suggested, I have met Terry Burns, Michael Quinlan and other Treasury officials to settle the difference between the costs in the Minford Report and that estimated by the Treasury. Fortunately it has been easy to resolve. The Treasury misinterpreted Minford to mean that he was increasing thresholds by 40% in real terms. My understanding, and what Minford was in fact doing, was that the ~~40%~~ was in nominal terms. There is virtually no difference between the Minford and Treasury estimates of the threshold effect. Similarly, there is no significant difference between the Treasury and Minford estimates of the cost of raising child benefits.

There is still considerable difference between Minford's estimate of the costs (or benefits) of the benefits ceiling and the estimates of the Treasury. But there is an inherent uncertainty here and the Treasury admit that they can find no powerful argument for saying Minford is wrong, or indeed that theirs is right. The uncertainty remains.

There will still be considerable differences, however, in the estimates of the secondary effects, both on the costs and the benefits side. But again, in such estimates there are enormous areas of inherent uncertainty. The estimates depend on human behaviour which is neither well documented nor efficiently measured. All of us would agree on what would happen in general terms, but there will be considerable dissent on numerical results.

I think it is best to accept that there is inherent and irresolvable uncertainty in the measuring of the secondary effects of the proposed measures. It is best to judge the measures on, first their direct cost, secondly the general direction of the economic effect, thirdly their political acceptability, and lastly, above all, whether they are morally right.

13 October 1982

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ALAN WALTERS