

Prime Minister

(2)

NOTE FOR THE RECORD

You should be aware

of this, cc Mr Scholar ✓

MUS 6/1

NEDC

John Monaghan telephoned me this afternoon with a message about the discussion of the Chancellor's paper at the NEDC this morning.

He said that they had a useful and constructive discussion on macro-economic matters, which was not limited to pay, and ^{it} produced general agreement on the need to work the battle against inflation.

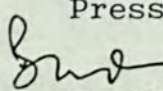
Unfortunately, however, towards the end of the discussion of the Chancellor's paper, Len Murray asked if the Treasury could produce a paper for the February meeting, over which the Prime Minister is to preside, looking at the trade-off on growth, productivity, investment, unemployment etc. based on different assumptions fed into the Treasury computer.

The background to Mr Murray's request is that ^{the} TUC consider the 1% growth provided for in the Industry Act forecasts as unacceptable. Mr Murray is particularly anxious to know the effect of a 2.5% cut in VAT and a £2bn boost for public sector investment.

The Chancellor, who was clearly put in a difficult position, pointed out that Treasury forecasts were not the mechanical product of a computer operation but reflected a range of assumptions and a great deal of judgement. He agreed, however, to produce a paper on assumptions and options but not for the February meeting and certainly not before the budget.

The Treasury in briefing (and see notes attached) will seek to highlight the constructive part of the discussion but they recognise that Geoffrey Chandler, Director General, will refer to Mr Murray's request of a paper for February and the Chancellor's agreement in principle to produce one, but not at the meeting over which the Prime Minister presides. It is likely that the TUC will also add their own heavy briefing, bearing in mind that they may well feel that Mr Murray's request may well have embarrassed us.

Press Officers should draw on the attached note if they are approached.


B. INGHAM 6 January 1982

FROM: J J MONAGHAN
6. January 1982

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Cun PA

PRESS OFFICE NOTE

NEDC MEETING

1. The Chancellor's paper on the macro-economy was discussed by NEDC at their meeting this morning. During the course of the discussion some disagreement arose between Len Murray and the Chancellor as a result of a request from Mr Murray that the Treasury should produce a paper for NEDC's February meeting which would look at different options and different possible outcomes, and to what extent there was a trade-off between growth, productivity, employment, investment, etc.
2. The TUC view was that the 1 percent growth envisaged in the Industry Act forecast for 1982 was unacceptable, and Mr Murray asked specifically what would be the effect of a 2½ per cent ^{cut} in VAT and an increase of £2 billion in capital expenditure in the public sector. He claimed that all he was asking for was a set of simulations off the Treasury model which could be produced in 30 minutes.
3. The Chancellor pointed out that Treasury forecasts are not mechanistic things on which we can run simulations. There is a strong judgemental input at various stages of the Treasury's forecasting exercise. Simulating variants, without changing the policy and other assumptions (monetary, exchange rate, etc) underlying the forecast, would not tell you anything meaningful. However, the Chancellor agreed to produce for a future NEDC meeting (but not February) a paper which would look at possible outcomes on the basis of different options and different assumptions. This might well include changes in those assumptions over which the TUC and others might have more influence than the Government (for example, earnings).
4. Geoffrey Chandler will be meeting the press at 3 o'clock this afternoon for the customary briefing. The Chancellor's paper is being issued to the press by NEDO. At his briefing, Mr Chandler will disclose that there was a disagreement, albeit on a rather narrow point. Nevertheless, the TUC are likely to do some heavy briefing on their own behalf and we can expect the Chancellor to come in for some press criticism for refusing to provide a paper for discussion at the February NEDC. In our press briefing, we must strive to get a more balanced presentation of what happened at today's NEDC.

5. Points we can make are the following:

(a) The February meeting of NEDC will be chaired by the Prime Minister and the agenda for the meeting was decided some weeks ago. It would be difficult to add something to the agenda at this stage.

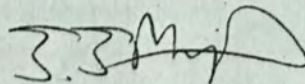
(b) There was a useful and constructive discussion at NEDC this morning on the macro-economy. The discussion was not limited to pay.

(c) The importance of improvements in productivity and of the need ~~to win the battle against inflation was recognised by all. There was~~ widespread agreement.

(d) The TUC request for a further paper is going to be met (though not in February). The reasons for not meeting the request by February should be given as set out in para. 3 and 5 (a) above. Any NEDC discussion of such a paper, even if it is after the Budget, could still be a meaningful step in the ongoing discussion on the Government's long-term strategy.

(e) In view of the useful and constructive discussion that took place and the widespread agreement reached, the extent of the disagreement should be played down as much as possible.

(f) Presentation should take a low profile. The Chancellor will not want to give any interviews and has already turned down the request from Douglas Moffat of IRN.



J J MONAGHAN