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Mr Cassell
Mr Shepherd
Mr Bridgeman ←
Mr Heigham
Mr Hudson
Mr Britton

MR ISAAC

ECONOMIC EFFECTS OF THE MEASURES: Your minute of 14 December

I would not object to the statement in your first paragraph. What I think would be wrong would be to allow it to be shortened to some such proposition as: "the purpose of the measures is to reduce unemployment", without qualification.

I have established that with the same gloss Mr Britton also would have no objection to your statement.

6/17/87

BRYAN HOPKIN
14 December 1976

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CONFIDENTIAL

PRIVATE SECRETARY TO CHIEF SECRETARY

- c Principal Private Secretary
- Sir D Wass
- Sir D Mitchell
- Sir B Hopkin
- Mr Lord
- Mr Pliatzky o.r.
- Mr Downey o.r.
- Mr Maynard
- Mr Anson
- Miss M P Brown
- Mr Bridgeman —
- Mr Cassell
- Mr Isaac
- Miss Court
- Mr Dixon

THE CHANCELLOR'S STATEMENT: EVIDENCE TO THE EXPENDITURE COMMITTEE

Further to my minute of yesterday's date, Mr Hubback spoke to me again before lunch on this subject. He said he was now not so sure that Mr English had actually spoken to the Chancellor about appearing before the Committee and it was more likely that he had telephoned the Chancellor's Office. Unfortunately, however, he had not been able to contact Mr English this morning because he appeared to have taken to his bed with a bad cold.

2. Mr Hubback said we could take it however that it was not merely Mr English's whim that a Treasury Minister should give evidence on the Chancellor's statement. It would be the wish of the General Sub-Committee. I said I hoped to be consulting the Chief Secretary about this during the course of the day but that it was unlikely that either he or the Chancellor would be able to fit in an appearance before the Expenditure Committee in advance of next week's debate. Mr Hubback made no comment on this but asked me to let him know when I had had an opportunity to speak to the Chief Secretary.



F JONES

14 December 1976

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SIR BRYAN HOPKIN

cc Mr Cassell
Mr Shepherd
Mr Bridgeman
Mr Heigham
Mr Hudson

ECONOMIC EFFECTS OF THE MEASURES

1. In the briefing on the Chancellor's Statement, I am proposing to include a statement on the following lines -

"The measures are necessary in order to regain control of our currency and to re-establish a basis on which we can advance towards external balance, greater price stability and full employment. The prospect for all of these is improved by the measures."

2. In saying this, I am conscious that I am going rather further than some of your advisers (notably Mr Britton and Mr Heigham) would wish.

3. I think it is generally agreed that on any realistic assessment, the exchange rate would fall - in the absence of the measures - and the prospects for inflation would be much worse.

4. There is room for more than one view about the prospects for growth and unemployment, in the absence of the measures. Some would argue that import controls would be better for employment than the Government's present strategy. Others would argue that, in the absence of the measures, the exchange rate would find stability at a lower rate, giving us a big competitive advantage in world markets, and giving us the prospect of better growth of employment, at least in 1978 and subsequent years.

5. Recognising that there are these differences of view, however, I take the position that the Government have chosen the present strategy, because they judge it to offer a better prospect for the economy generally - including both inflation and employment - than any other strategy open to them. If so, I think that the briefing should assert that judgement.

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6. For what it is worth, I personally would share that judgement (though I would have chosen a very different mix of public expenditure measures). I base my judgement on a view both of how the economy would develop in the absence of the measures, and of how the Government would react to those developments. However, that is not perhaps strictly relevant to the point at issue.

7. I should be very glad to know whether you agree with this approach.

C. H. C. M.

A J G ISAAC

14 December 1976

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CONFIDENTIAL

TREASURY



MR F JONES

- cc Principal Private Secretary
- Sir Douglas Wass
- Sir Derek Mitchell
- Sir Bryan Hopkin
- Mr Lord
- Mr Pliatzky
- Mr Downey
- Mr Maynard
- Mr Anson
- Miss M P Brown
- Mr Bridgeman
- Mr Cassell
- Mr Isaac
- Miss Court
- Mr Dixon

THE CHANCELLOR'S STATEMENT: EVIDENCE TO THE EXPENDITURE COMMITTEE

The Chief Secretary has seen your minutes of 13 and 14 December. He has minuted as follows:-

"I agree. Of course, if they want me I would go, but I hope they will agree that it would be unreasonable to go before the debate. After the debate would then inevitably mean after Christmas."

BSM

B S MORRIS

14 December 1976

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MR ISAAC

cc Mr Lord
Mr Couzens
Mr Middleton
Mr Wiggins —
Mr Gray

CABINET 14 DECEMBER: MONETARY POLICY

I attach a series of notes on monetary policy in the format which you asked for, to be included in the brief for the Chancellor for tomorrow's Cabinet.

J.M.B.

J M BRIDGEMAN
13 December 1976

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produce hard evidence of this, then we will be in a good position to re-negotiate. If on the other hand we found that the SSD scheme was not having as adverse effect as we think is possible on manufacturing industry, then there will be no need to seek an upward revision of this target.

1978-79

The letter is drafted so that this is a target, not a ceiling. The ceiling for that year, and the quarterly path, will be negotiated next November.

Money Supply

We managed to persuade the IMF team to remove all figures on the growth of M3 from the text of the letter of intent, on the grounds that if we were going to have to keep DCE to a ceiling agreed with the Fund, we did not want also to have to observe an M3 target for domestic purposes. It will clearly however be necessary to give some indication of how the DCE figure relates to M3, and the draft statement accordingly gives a range for this year, saying that the range for next year will be specified later. The 8-13% range for the growth of sterling M3 in 1976-77 does not look too bad against the 12% target mentioned in July. It has benefitted from two changes in definition:-

- i. The adoption of "sterling M3" which excludes the changes in resident's foreign currency deposits, the greater part of which is due to revaluation adjustments as a result of the depreciation of sterling;
- ii. The switch from conventional fiscal years to banking month years ending in mid-April, which excludes a period of high DCE and M3 growth in the first part of calendar April 1976. The effects are summarized in the following table.

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imperilling the rest of the policy. It must be recognised that the markets may be somewhat disappointed at the package, particularly if less is said about the "safety net" than they had been expecting, and that therefore we have had already in anticipation most, if not all, of the immediate downward movement.

It is quite clear that, whatever the Chancellor of the Duchy of Lancaster may say, it will be necessary for there to be a substantial rise in building society interest rates, even if there is a quite good reaction to the package in markets generally: the building society rates are too far out of line with the present rates to avoid any increase. The mortgage rate will probably have to move to the range $13\frac{1}{2}\%$ -14%.