



10 DOWNING STREET

PRIME MINISTER.

1. I REPORTED TO YOU ON JOHN BIFFEN'S EXCELLENT OPENING STATEMENT AT LAST NIGHT'S FINANCE COMMITTEE.
2. HEREWITH PETER CROPPER'S NOTE.
3. I LEFT AFTER THE STATEMENT AND BEFORE QUESTIONS.
4. GEOFFREY AND OTHMAN ARE CONCERNED ABOUT JOHN BIFFEN'S REPLY TO WALDEGRAVE — LAST PARA ON THE THIRD SHEET. ¹²
10/12/1944.

CHANCELLOR
CHIEF SECRETARY.
FINANCIAL SECRETARY
MINISTER OF STATE (C)
MINISTER OF STATE (L)
MR NEWTON
SIR DOUGLAS WASS
SIR KENNETH COUZENS
SIR ANTHONY RAWLINSON
MR W S RYRIE
MR T BURNS
MR UNWIN
MR RIDLEY
MR CARDONA

cc Sir Lawrence Airey - IR
Sir Douglas Lovelock - C & E

CONSERVATIVE PARTY FINANCE COMMITTEE - 9 DECEMBER 1980

Addressed by the Chief Secretary on the subject of "Public Expenditure" - about 80 present.

2. Peter Hordern hoped that in future the government's assumptions on nationalised industry deficits would accord more closely with the credible.
3. John Peyton had three wishes for 1981:
 - i) that the Treasury forecast of a bottoming out of the recession in mid 1981 would turn out to be true;
 - ii) that the Treasury (the Department, not the Ministers) would be able to persuade him that they had more knowledge of and sympathy with the wealth creating processes of this country than he believed they had - which was not very much;
 - iii) that it would be possible to settle on an attitude and stick to it - cf firemens pay, where he thought there had been grave vacillation.
4. Tim Eggar: There had been too much attention to the M3 figure. Would there be a variety of target figures in the MTFS?
5. Jock Bruce-Gardyne: If we took the range of PSBR possibilities for 1981-82 as £7 to £14 billion, which would give the higher exchange rate?

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6. Maurice Macmillan: feared there was at least a possibility that the government's present policies would make it more difficult to control inflation later on. The destruction of parts of the industrial base would make it more difficult for the economy to respond to recovery.
7. Nigel Forman: Would it not be wise, in regard to the Party's election commitments, to say that circumstances change cases? Would the Chief Secretary agree that we should at all costs avoid any action on indexed pensions that might smack of retrospection.
8. James Hill: asked whether the Treasury really had any control over the Department of Industry.
9. Tony Marlow: Sterling has gone through the roof: what can we do to help industry through the intermediate period?
9. Ivan Lawrence: I thought we were told the interest rates would be reduced when M3 had come under control. M3 is not yet clearly under control but the MLR has been cut. This shakes confidence: better presentation is called for.
10. William Waldegrave: Worried by the apparent down-grading of the MTFS and by the fact that control of monetary growth is no longer absolutely at the centre of government policy. What replaces them?



P J CROPPER
10 December 1980

1. (In the course of introduction)

i) We have broadly stabilised expenditure: it is only revenue that will make an impact on the PSBR now. Save in respect of public sector pay - the one non-volume factor over which the Government can have an influence.

ii) The danger lies in borrowing to spend. We must never allow ourselves to let the PSBR approach the 9½% of GDP that it reached under Healey. There are arguments for allowing the PSBR to rise in a recession. You have a Chancellor and a Treasury that believe a balance is possible (such that the PSBR remains high during the recession but does not get out of hand).

2. (In answer to Tony Marlow.) There is only very limited scope for action re industry. Restrictions on capital inflow would at best provide a short breathing space. All we might do is to shift the balance of taxation from the corporate sector to the personal sector.

3. (In answer to William Waldegrave). I have never found the MTFS an easy concept to market. I understand people who nail their flag to the MTFS, but it is all a foreign tongue to me. It is liable to excite enthusiasm, too, and that is a very unConservative emotion. For the time being M3 has lost its credibility; until its credibility is re-established by the course of events there is nothing we can do about it. There are many difficulties that are more important and pressing than the behaviour of sterling M3. You are always at risk if you get too mechanistic about things.