

Top Copy P.M.'s Elder



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Dear Tim,

... Following our telephone conversation yesterday,  
I attach a note of points which the  
Prime Minister might include in her New  
Year's television broadcast.

Seasonal greetings!

Yours, Richard

R.I. TOLKIEN  
Private Secretary

## POINTS TO MAKE

### World Economy

(i) Recession a world-wide phenomenon. Other industrial countries, as well as UK, suffering recession and unemployment. OECD unemployment rose by 2½ million in six months to Q3 1980. Industrial production has fallen steeply over past year in North America and major European countries.

(ii) OECD Economic Outlook, published just before Christmas, notes that firm policies adopted by many countries should help to reduce inflation. Recovery of output, however, will be slow.

### UK Policies

(i) Government remains firmly committed to progressive reduction in money supply growth - essential to secure lasting reduction in inflation. Prospects are for slower monetary growth in New Year as bank lending moderates and PSBR is lower.

(ii) Reduction of 2 per cent in MLR should help industry. Hope very much to be able to make further cuts depending on monetary and economic developments.

(iii) Firm control of public borrowing and spending essential if we are to contain monetary growth without high interest rates. Never easy to trim spending but have made a creditable start. In last financial year (1979-80), previous government's unrealistic plans reduced by £2½ billion.

(iv) Important not to attribute too much importance to Government policy in determining economic performance. Wealth creation depends on efforts of companies and individuals.

(v) Critics of Government not always consistent (e.g. TCSC) suggesting simultaneously that monetary policy is too tight and too lax, public spending too high and too low.

#### Inflation

(i) Rate of inflation has fallen substantially. Year-on-year increase in retail prices down to 15 per cent and prospect of further fall in period ahead. Industry's raw material costs flat over past six months.

(ii) Increasing signs of realism in wage settlements. CBI Databank shows majority of settlements in manufacturing industry this round are for 10 per cent or less. Moderate wage settlements offer best prospect for secure jobs.

(iii) Average living standards not likely to decline much in 1981 despite lower wage settlements - reflects success already achieved in lowering inflation.

(iv) Industrial stoppages in 3 months to October lowest for 30 years.

#### Activity and unemployment

(i) Worst of output fall may now be over. Industry Act forecast shows no further decline in course of 1981. Respected outside forecasters, such as LBS and NIESR agree. Contrast pessimism of OECD.

(ii) Unemployment likely to show some further increase in period immediately ahead, but forecasters disagree substantially about size of rise. Past forecasts frequently wrong. Improved productivity and moderate wage settlements offer best prospect for high employment and economic growth.

(iii) Special employment measures increased by £250 million to £570 million. Substantial impact on youth unemployment (£440,000 places on YOP next year) and long-term unemployed (25,000 places on Community Enterprise Programme).

Balance of payments and competitiveness

(i) UK current balance improved in 1980 while most other major industrial countries' deteriorated. UK current balance in surplus in Q3 1980.

(ii) At least half loss of competitiveness since 1978 due to excess wage settlements. Firm exchange rate benefits industry's raw materials costs.