

ECONOMIC RECONSTRUCTION GROUP

Minutes of the meeting held at 10.00 a.m.
on Thursday, 20th May, 1976, at the
House of Commons.

Present: Sir Geoffrey Howe, MP (Chairman)
Mr. Biffen, MP
Mr. Gilmour, MP
Mr. Howell, MP
Sir Keith Joseph, MP
Mr. Nott, MP
Mr. Griffiths

Mr. Ridley } (Secretaries)
Mr. Cardona }

Apologies: Sir Leonard Neal
Mrs. Oppenheim, MP
Mr. Prior, MP

The Report of the Shadow Cabinet and co-ordination of economic policy

1. There was a discussion of the report which the Group would present. It was agreed that it should be submitted in July, and that the economic field was too large and problems of timing too complex for a report to cover it: there would have to be two or three reports, one each on taxation and public spending for early consideration and a broader more strategic report at a later date.
2. It was agreed that the Chairman, Mr. Jenkin, Mr. Nott and Mr. Howell would meet to ensure that the reports of the Economic Reconstruction, Public Sector, Taxation and Social Security policy groups were properly co-ordinated.
3. There was a discussion of the problems involved in co-ordinating policies in these fields. It would initially be assumed that any reductions in public expenditure would be largely absorbed in cutting the public sector borrowing requirement to an acceptable level; thereafter cuts in spending would allow major tax cuts to be made. There was a list of small fiscal concessions that could be made to particular pressure groups, and Mr. Jenkin had a similar list of social security concessions. Co-ordinated examination of the tax, public spending and social security work would also throw up the need for a significant increase in assistance to the very needy.
4. Mr. Griffiths was asked to prepare a draft for the sections of the Group's report dealing with our general approach to economic management and monetary policy.
5. Mr. Howell was asked to co-ordinate the thinking on the economic aspects of the machinery of Government of the Economic Reconstruction and Machinery of Government groups. A speculative rather than problem-solving paper on this subject should perhaps be discussed by the Group.
6. There was a discussion of methods of implementing monetary policies. It was thought that monetary targets could be useful. The mechanisms for controlling money supply already existed.

Public expenditure and the Budget

7. It was agreed that most people with an interest in the matter now accepted the need for contemporaneous budgets and Public Expenditure White Papers. The main problem was that the Treasury was not adequately staffed to cope with the change, but the Treasury was aware of the movement of thought in this direction.

A Council of Economic Advisers

8. There was a discussion of the possibility of introducing some sort of Council of Advisers, roughly on the lines of the "Five Wise Men" in W. Germany. It was considered important that any such body should be primarily at the service of Parliament and not the Executive. There was a very strong case for the integration of the proposed body with the General Sub-Committee of the Expenditure Select Committee. It was agreed that this suggestion should be the subject of a short paper highlighting the key issues, which would receive a full discussion by the Group at some future date. This would be followed by throwing our ideas open to public discussion. Advice and assistance should also be sought from Mr. Hurd and outside bodies such as the CFS, to learn more about the experience of other countries.

The Price Code

9. The problem of moving towards eventual abolition of the Price Code was discussed. Two questions had to be answered: (i) what should our line be at the moment? and (ii) what changes should be made eventually? We should be in the position of having something ready to replace the Price Code, preferably a cosmetic body which would investigate individual price-rises without affecting the profitability of the corporate sector - Mr. Lamont and Mr. Cardona would write a paper for discussion by the Price Code Policy Group, with the aim of producing a political line as soon as possible.

Mr. Ridley's paper on reviving the private sector (PG/10/76/23)

10. Mr. Ridley spoke to his paper. The necessary switch of resources would not be easy. It was important to persuade the press, the City and industry of the depth of our understanding of the issues as well as to have an easily understood political position. There could be grave dangers in cutting public expenditure if the private sector were not revived, particularly in the downswing of the economic cycle.

11. Mr. Ridley drew attention to certain points in his paper. The arguments in paragraph 2 were very important. The diversion of a substantial proportion of the national income to profits meant the depression of personal incomes: this would be difficult. The public sector could afford to pay more than the private sector when borrowing money: this reverse yield gap was a fundamental maladjustment which needed correction.

12. Mr. Griffiths took the view that cuts in public expenditure together with abolition of the Price Code would be a sufficient condition for a revival of the private sector. There was a discussion of the possibility of a campaign to educate the nation - and in particular the trade unions - into thinking that profits mattered. It was pointed out that the UK was not starting from a position in which the need for economic reconstruction was easily discernible; and that for a very long time the trend of profits had been downwards. It was thought that Ralph Harris should be asked to organise a paper or a conference on the possibility of a British economic miracle.

20th May, 1976.

SIR GEOFFREY HOWEEconomic Reconstruction Group

In advance of the full ERG minutes you may be grateful for a very brief note on what happened after you left this morning. In essence, Brian, and to some extent Sir Keith, suggested that someone should attempt to set down on paper what might be expected to follow from what one might call the more emotional end of our policies. By that I think they meant the practical consequences in terms of higher profits than the rest, of liberation of enterprise, lower taxes, more incentives, etc. etc. Sir Keith suggested that it might be worth getting someone to try and put on paper what might be expected to follow from this approach and will, I think be exploring it with Ralph Harris. There also emerged in our discussion the germ of an idea which might be of some value. That is that the IEA should organise some kind of seminar devoted to the simple question "Does the private sector need revival and if so how?"

I remain quite unrepentant in my own views, as you may be able to imagine, and will be discussing the technical aspects of my paper with Mr Briffiths as soon as a suitable opportunity presents itself.

Adam Ridley

P.S. I have handed the draft of your dated incomes policy speech to Tony Greenland for reproduction.