



10 DOWNING STREET

1. DAHAENDORF WAS REALLY
RATHER GOOD.
2. HE IS FLIRTING WITH
THE S.D.P.

[Signature]
20/11/1981.

CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
MINISTER OF STATE (L)
ECONOMIC SECRETARY
MR P BROOKE MP
SIR DOUGLAS WASS
SIR KENNETH COUZENS
SIR ANTHONY RAWLINSON
MR W S RYRIE
MR T BURNS
MR KEMP
MR RIDLEY
MR HARRIS

cc Sir Lawrence Airey I/R
Sir Douglas Lovelock C&E
Ian Stewart MP

Ian Gow, Esq. MP.

CONSERVATIVE PARTY FINANCE COMMITTEE - 17 NOVEMBER

The meeting was addressed on the subject of "The Economy" by Professor Dahrendorf, of the LSE. About 30 present. Professor Dahrendorf started out by stating that although he had joined Sir Harry Fisher's SDP committee on constitutional reform, he had not joined the Social Democaratic Party.

1. It was crucial to understand that Britain's economic problems dated back 80 to 90 years. Since then there has been relative decline, and this has turned recently into absolute decline. Absolute decline is difficult to deal with: it tends to undermine social cohesion.

2. Secondly it was important to realise that the cost of further growth had become very high: new investment was now prodigiously expensive. We would therefore have to get used to the idea of stability. This was not stagnation, for change must certainly take place. But it did mean the probability of zero growth over all, much of the time.

3. Free trade was the vital element that would prevent stability drifting into stagnation.

4. Professor Dahrendorf doubted whether anybody really understood how to deal with the curse of inflation. Control of the money supply was one, but only one, of the elements.

5. No government would be able to reduce unemployment in the next few years. It was to be hoped that Parties would not make promises that they could not fulfil in this regard. In any case, it was the middle classes who really objected to unemployment, not the working classes among whom the main incidence occurred.

6. The trouble was, particularly looked at from the point of view of young people, that all the country's institutions were institutions of the employed. Trade Unionism cared very little for the unemployed, especially the young. Trade Unionism would obstruct the one economic solution - lower real wages for the young. A move to lower real wage scales would soon have the overwhelming majority of young people in work.

7. The young would require a very special effort. We needed to look very carefully at the idea of Community Service.

8. Nothing would worry Professor Dahrendorf more than a total clamp down on the black economy, for that was where new jobs would start.

In response to questions, Professor Dahrendorf added:

i) He was, on balance, in favour of Proportional Representation. It would create a more stable background and longer time horizon for investment decisions.

ii) It was important to remember that, despite unemployment and other problems, there were more people than we realised who were entirely satisfied with their lot.

CONFIDENTIAL

iii) We had to maintain our Aid effort. It was worrying to hear President Reagan say it was necessary to put the home economy right, before America could extend its effort overseas. There was a danger of introversion.

iv) Rebuilding a non-inflationary international monetary system was the most difficult thing.



P J CROPPER

19 November 1981

CONFIDENTIAL