

13.8.79

Note of a meeting on the Economic and Financial Situation held
in the room of the Chancellor of the Exchequer, HM Treasury,
at 11 am on Tuesday 7 August 1979

Present:

Chancellor of the Exchequer
Minister of State (C)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Lawrence Airey
Sir Fred Atkinson
Sir Kenneth Couzens
Mr Hancock
Mr Bridgeman
Mr Unwin
Mr Battishill
Mr Ridley
Mr Cropper

Rt. Hon Gordon Richardson, Bank of England
Mr Page, ✓

The meeting considered the economic and financial situation with a view to preparing a stocktaking paper for the Chancellor to send to the Prime Minister. It had before it Mr Unwin's paper of 3 August. In discussion the following points were made:

Monetary developments

2. It would be some months before it would be clear that the growth of the money supply was under control. There seemed no cause at present to change policy. The banks' eligible liabilities had increased only modestly in July. The growth of sterling M3 was likely to be somewhat larger, but if the eligible liabilities figures were well received by the market, the Bank of England would take the opportunity to sell gilts. The Chancellor asked whether additional ways could be considered to help finance the PSBR in the autumn - perhaps by a new National Savings Certificate issue to coincide with the October tax rebates.

3. It was suggested that the SSD scheme might be tightened in view of the likely difficulty of restraining monetary growth in the coming months. It was argued, however, that the scheme was already steeply progressive and excessive tightness would encourage

evasion. The Chancellor asked that the scheme's general effectiveness should be kept under review. In the meantime, the already announced recalls of special deposits from the clearing banks on 13 August and 10 September should be allowed to go ahead.

Exchange rate

4. The announcement of the large increase in July had caused some surprise at the apparent extent of the Bank's purchases of foreign exchange from the market. Sterling's sharp, but overdue, downward adjustment, however, at the end of the month and in the first few days of August had shown the earlier intervention to be justified. If sterling's decline continued to be gradual, the Bank would give modest support. If the fall steepened, however, as a result perhaps of adverse market reaction to bad domestic news eg on inflation or the balance of payments, the Bank should make its presence felt to avoid the impression that the authorities desired further depreciation.

5. On exchange control, the Chancellor expressed concern about Press reports that staff savings in the Bank had been limited. The Governor said the Press had not given the full story. The Chancellor asked for further consideration of how this might be presented - perhaps in the context of further measures in the autumn.

Public expenditure and the PSBR

6. The position on the PSBR this year continued to be tight and it would be necessary to take a firm line against any extra spending proposals. The cost of the recent Clegg awards seemed likely to be higher than expected at the time of the Budget, and the Post Office telephone billing dispute would add significantly to the PSBR at least in the short-run. The prospect for the PSBR in 1980-81 looked increasingly difficult with little room for manoeuvre.

Pay

7. Initial signs for pay claims in coming months were not encouraging. Employers in the private sector were expecting a freer hand than last year. The Chancellor, however, said that many companies might not have appreciated fully the problems in relating pay settlements to what could be afforded. It would be important for Ministers to make clear the consequences of excessive wage settlements and the damage caused by strikes.

8. In the public sector, the Treasury was currently assessing the first Clegg awards. The Chancellor said that we should consider whether the Government should submit evidence to Clegg on the outstanding references.

Company position

9. The policy of squeezing out inflation through firm monetary policy implied a tight liquidity position for companies as part of the process of discouraging excessive wage settlements. The concern, however, was whether this would cause widespread bankruptcies. The Chancellor said that the position should be kept under close review. Measures to help company liquidity, however, might require legislation and typically involved a PSBR cost.

A. Bottrill

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13 August 1979

Circulation: Those present.