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Chairman ANDREW SMITH TD MP  
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MRS. THATCHER

The latest state of play on the package

It seems increasingly likely that the Government will, as has been foreshadowed over the weekend, offer a package including:

- £1 bn. of economies in public spending in 1977/78.
- £½ bn. on financial economies in the same year, probably on such things as local authority mortgages and improvement grants but conceivably through some selective import deficit scheme focussed on consumer goods.
- £½ bn. of confidence boosting sales of BP shares, perhaps half at home and half overseas.

Something will also be said about lower debt interest. While this could mean the issue of some kind of novel index linked stock, which would lower the interest burden provided a major conversion manoeuvre were undertaken, it is equally possible that the Government will have lowered estimate of the real interest rate next year.

It has not yet been possible to find any confirmation of the rumour in yesterday's Guardian that the Government will be in a position to make a statement by Thursday. Indeed, even if they agree everything in broad terms by that day, it is likely that they would want a little time to spare to tidy up the many complicated details. Some kind of statement seems far more likely on Tuesday, 14th December, which has always been the most natural moment for such an announcement.

There must arise the question as to whether such a set of proposals would carry much conviction internationally. Provided, as is likely, we are informed about some progress towards a sterling balance agreement at the same time as the other measures are announced, the feeling seems to be that the Government could

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well get away without difficulty. However, they cannot afford any complacency since any number of adverse events could put people in a pessimistic frame of mind on the day and make them react unfavourably. If there is any single proposition which they will be looking for in the Chancellor's statement it is that there should be continuing economies into 1978/79 and beyond. Such a statement seems very likely.

AR

ADAM RIDLEY

7th December, 1976

c.c. Sir Geoffrey Howe  
Mr. Nott  
Mr. Howell  
Economic section