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cc Sir Lawrence Airey - IR
 Sir Douglas Lovelock - C&E
 Ian Stewart MP

CONSERVATIVE PARTY FINANCE COMMITTEE - 3 MARCH 1981

Mr Sam Brittan. Fifty members present.

1. Mr Brittan was not desperately worried about the Budget. The main danger lay later in the year; time lags will undoubtedly test the fortitude of Ministers. For the Budget itself his main worry concerned the "idiot scheme" to announce a cut in MLR of 2,3,4,5 points in the Budget speech and to shift the emphasis from monetary policy to exchange rate policy. The exchange rate was already down to the Niemans level.
2. The Chancellor is in a no win situation. If he cuts MLR by 3% or more, sterling will fall. If he cuts it by 2% or less, sterling may actually rise. Moral: don't politicise interest rates.
3. Public spending: nothing to add: no new thinking expected in this Parliament as to the balance between public and private provision of services.
4. The one great contribution of this administration - the MTFs. The only fault: it would have been better to have promulgated it in terms of nominal GDP rather than Sterling M3. People who ought to know better have now set M3 up as a great Aunt Sally, egged on by the Bank.
5. The main reason why the counter-inflationary policy has been so successful has been the rise in the exchange rate, for which three cheers. The government has been very courageous in allowing it to happen.

6. A vitriolic attack was made on the Treasury Select Committee, and its Chairman was criticised in unParliamentary terms. The Committee has been taken for a ride by people with academic vested interests. It should have stuck to the two jobs of scrutinising officials and conducting political enquiry. The whole line of enquiry in the imminent report is based on a fallacy: a calculation on the Treasury model, showing that four or five years of 2½% excess unemployment would be needed in order to bring inflation down by 1%, had been taken right out of context. What is fundamentally pseudo-scientific is to take lessons from an incomes policy era and project them forward for a different environment.

7. Peter Viggars asked about an Oil Fund. Mr Brittan strongly supported the idea. But the fund must invest abroad, not in UK manufacturing industry. If the latter course were pursued, diminishing returns would proceed yet further.

8. Tony Beaumont-Darke angrily attacked Mr Brittan for his unbalanced criticism of the Select Committee.

9. Tim Renton wondered how the over shoot in M3 would be brought under control. Mr Brittan directed attention away from M3 to nominal GDP. What had actually put things right, despite M3, had been the exchange rate, pressure on margins and the re-examination of costs throughout industry.

10. Kenneth Carlisle was afraid that inflation would soon start rising again. Mr Brittan thought this was going too far. But he did not think Ministers were in the mood to carry through a policy of bringing inflation down to 3-4%. If Mr Jenkins or Mr Healey had been at the Treasury he would have been confident there would be no re-stimulation. "But with the Conservatives you cannot be too sure".

11. Nick Budgen asked what the government needed to do to get back on course. Mr Brittan replied

1. Keep away from an exchange rate policy.
2. Improve the instruments of debt management, including sale of indexed bonds.

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12. Tim Eggar felt that Mr Brittan had been as guilty of axe grinding as anyone on the Select Committee.

13. Ivan Lawrence asked what could be done to bring down unemployment before the General Election. Mr Brittan felt the Chancellor would do best by sticking to the MTFS. The Department of Employment were the people who could really help to create jobs by preventing people being priced out of work by Wages Councils etc.

14. Michael Spicer asked about taxation. Mr Brittan said that the Chancellor should do a full Rooker-Wise, even if it meant raising the basic rate. He should at least maintain the real value of Child Benefit.



P J CROPPER
4 March 1981

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