

MEMORANDUM

To: A.S.

From: Sir Keith

Incomes Policy Speech

Date: 3.8.76

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You asked me to let you know of any passages in the three drafts on Incomes Policy, prepared by you, with which I disagree. The three drafts are attached and are marked "C", "M" and "X".

- X. I disagree with nothing.
- M. I disagree with nothing, and particularly agree with your (a) on page 13.
- C. I would prefer to omit "class bitterness" on page 2 and the reference to "muffled men" in insert A. I am not sure about para. 2 on page 5 and para. 2 on page 13 is not where we are now, i.e. industry is not at the moment on the brink of collapse.

I set out a few additional comments which I would be grateful if you would take into account. Some of them pick up points you have touched on.

Spontaneous pay-restraint would be fine

Socialists will emphasise incomes policy as their Party monopoly.

Governments are not responsible for unemployment nor Trades Unions for inflation.

The quotation from Sir Richard Clarke on page 8 of my draft 5th May 1976 (attached) may be useful.

It all looks so plausible now, inflation declining: few strikes. But, if government spending were cut further, inflation would fall further and the private sector would be unable to expand.

High-powered money - i.e. expanded credit basis waiting for loan demand.

The alleged success of the packet is cloaking the re-fuelling of inflation.

It is easy to control money supply, as measured by M1 and M3 during a recession.

D.C.E.

Note that nationalised industries' subsidies are falling and some are making a profit though not nearly enough to pay off their own investment.

Mrs. Thatcher particularly objects to the emphasis in incomes policy of pay rather than output.

Sensible behaviour in connection with wage claims and co-operation with management depends either upon understanding or upon some slack in the labour market or a bit of both.

The real co-operation required of the T.U.C. and of Labour is to allow government's spending to be cut.

The real constraints are not by incomes and prices policies but the awareness that excessive claims will, because the Budget is moving towards a balance, lead to unemployment

TEXTS C, X, M.

1. - and drafts
2. Labour government is recognising now its own impotence in the face of registered unemployed of 1.4 million.
3. Not where we are now. Industry is no longer on the verge of collapse. Inflation rate now ? 13%.
4. Pages 8 & 9, para. 1 & 2 of M, coupled with page 12(d) of M. Please add explanation of the co-operation that should be asked of the T.U.C. - namely acceptance of the need for government to cut government spending. Only by allowing the private sector to expand will jobs and prosperity be created.
5. Page 13(a) of M.
6. Page 14 & 15(b(c) of M.
7. This perhaps needs a little more explanation - as page 22, para. 2 of X.
8. This speech lacks a description of what happens without incomes policy. Perhaps insert here pages 24, 25, 26, 27, 28, 29, 30 of X, and pages 10, 11, 12, 13 of S.
9. Insert para. 1 of p. 38 of X.
10. Perhaps insert here para. 2 of insert B on page 2 of X and insert C (3 pages) of X.