

Sir A Howe MP



22 October

MRS. THATCHER

Sir Geoffrey Howe asked
me to draw this extract from one
of his speeches to your attention.

You will see that it was
made a year ago this week.

A stylized handwritten signature, likely of Richard, consisting of a large 'R' followed by a series of loops and a final upward stroke.

Richard

A prophetic indeed!
MS

Extract for a speech by Sir Geoffrey Howe
at the St Ermin's Hotel - 27th
November 1975 - 16 - 11/11/75

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- 16 -

Fifth: because of the debilitating and demoralising effect of the constantly changing framework of controls - particularly perhaps the maintenance of the present pattern of price controls.

Sixth: because of the constant reduction in the scope for profitability.

GOVERNMENT STRATEGY IN DANGER

I have so far argued that much of Labour's diagnosis of our present troubles is, in effect, a description of the symptoms of the disease (and faulty at that), which totally ignores underlying causes.

The immediate consequence of this must be anxiety that the measures which the Government are preparing are unlikely to achieve the goals they are setting for themselves.

It is one thing to say that Government intervention in industry - and some there will always be - must be conducted on a rational basis; that the assistance the Government offers must have regard to the prospects for the competitiveness of the firms, plants or products in question and the cost-effectiveness of different ways of providing assistance.

If that is the level at which the Chequers debate about industrial strategy is to take place, then we welcome it.

But there is a more serious underlying threat to the Government's present strategy. I refer once again to the growth of public spending and the enormous increase in the borrowing requirement. These together will make it increasingly difficult to keep the rate of monetary expansion down to a reasonable figure and to preserve any balance in the economy. It will not be long before anxiety about Government borrowing, disturbingly expressed in the Governor of the Bank of England's recent speech at the Mansion House, will become well nigh universal. The grave danger is that the Government will have no choice but to make a major change in its monetary and financial policies.

/In order to

In order to prevent its borrowing requirement from being met by printing money or by excessive short-term borrowing, the Government may well have to take action to reduce the credit base, and to borrow on a sounder long-term basis. We could then expect to see an unpleasant and dramatic package of measures including a call for massive Special Deposits, much higher interest rates particularly in the longer term, tight controls on borrowing by all "inessential" sectors and yet further tightening of consumer credit.

The results of such a change of course would be unpleasant. Almost every enterprise would face a big increase in interest payments on bank borrowing. Recourse to further bank borrowing would become more unattractive too. So there would be further check to production, quite possibly at just the moment when the economy could have been starting to move out of recession.

Confidence in expansion would take a severe battering in every part of the economy. Unemployment would undoubtedly rise still further at a time when it is already at record levels.

While such measures might be necessary and just sufficient to prevent a really serious deterioration in the country's financial situation, the underlying pattern of savings and investment would be, if anything, less satisfactory than before. The effect of such measures would be, above all, to make capital expenditure and restocking far more difficult. For the Government would be out-bidding the private sector in the market for savings far more effectively than it has so far done. This "crowding out" would then be an explicit consequence of the excessive level of public spending.

This would not be all. The risk is that the Government will have to take these measures in a hurry and in face of a crisis - much as it had to act in the summer to deal with the inflationary explosion. In such circumstances the Government must err on the side of excess.

/Without a

Without a considerable degree of "over-kill" there is little chance that it can recreate financial credibility. So the shock to the economy and the check to expansion would be much more serious than it need be, or would be, if the Chancellor would only change course systematically now.

The need is for the proper preparation of a set of sensible measures and for a candid explanation of their necessity to the people whose consent and understanding is essential.

NO FALSE EXPECTATIONS

It is of vital importance that the Government's approach to this task should not be founded upon the generation of false expectations. No single government gimmick or package can effect a dramatic cure. This certainly does not mean that Government has no part to play in promoting a cure. But it is the responsibility of Government to guide the economy as a whole, in such a way as to create the right environment for the long-term recovery which is within our grasp.

This is no time for Government to be promoting massive and "irreversible" changes in the shape of our society. Nor is it a time in which we can be looking for an easy resumption of a dash for growth.

But given the right kind of government, it is certainly possible for us to set about rebuilding a vigorous economy. The need is for this task to be undertaken "with all deliberate speed". And for Government, industry and the nation to understand the way in which the recovery can be expected to come about. The role of Government in explaining that process is of first importance. "Democracy", as Balfour once said, "is government by explanation".

INVESTMENT CONTRACT

Instead of looking, as so often before, for the easy answer, should we not now set about the production of an "investment contract", designed to make Britain a land fit for investors to live in? For where profits and investment flourish, there living standards and a sense of industrial fulfilment may be expected to flourish as well.

/Let me offer.....