



RA

10 DOWNING STREET

Prime MinisterCHANCELLOR'S RADIOINTERVIEWS

You may find it helpful  
before Questions tomorrow  
to glance through these  
transcripts of the radio  
interviews the Chancellor gave  
at lunchtime.

Rlc6  
24/5

TRANSCRIPT FROM 1 O'CLOCK NEWS, BBC RADIO 4, 24 MAY 1989

PRESENTER (JAMES NAUGHTIE): Joining us now from our radio car in Downing Street is the Chancellor, Nigel Lawson. Mr Lawson, hasn't this latest rise in interest rates been caused by what the Prime Minister said yesterday, perhaps ill advisedly, because the result was to send a jittery City running to sell the pound?

CHANCELLOR: I don't think you can attribute any one particular cause, though there have been a number of things happening -

NAUGHTIE: But it didn't help?

CHANCELLOR: There have been a number of things happening, notably the remarkable strength of the dollar in recent weeks. What had happened, quite simply, was that the pound was under pressure to the point where it was necessary to raise interest rates in order to keep monetary policy sufficiently tight. I have said all along that we have got to get inflation down, and that means interest rates have to be as high as is needed for as long as is needed, and I judged that the time had come, given what was happening in the foreign exchange market, to raise interest rates, and this is indeed has had a salutary effect. But what you have to look at, as Alan Budd quite rightly said, is what is happening to the domestic economy, and on the domestic economy things are going just as they should do. You have seen the housing boom has subsided, the amount of borrowing, therefore, which is largely linked to purchasing housing, that has come down, the retail spending has come down, we see the retail sales figures today, that has slowed down tremendously, and the progress of getting inflation down takes time, of course, but it is going according to plan.

NAUGHTIE: But you see, the reaction of the market yesterday to what Mrs Thatcher said was very sharp indeed, as you know, and to make that kind of comment off the cuff at question time against the background of the strong dollar against the background of 8% inflation, against the background, frankly, of a long standing

dispute between you and the Prime Minister about exchange rate policy, is surely ill advised, and almost certainly going to produce the kind of reaction that forced you to put up rates higher than you would want this morning?

CHANCELLOR: I really wouldn't attribute the market, what is happening in the foreign exchange market, <sup>safety</sup> to what the Prime Minister said, that is absurd. What this shows is the febrile nature of financial markets and the foreign exchange market in particular. That's something we have always known about, and that is one of the reasons why, within the G7 major industrial nations, we have tried to exercise a steadying influence over the years, because the nature of markets is such that they are extremely febrile and volatile.

NAUGHTIE: The Prime Minister said last year that you could not book the markets, you are saying that you have got to do it. Now looking back to what the Prime Minister said on that subject last Friday, she said that the inflationary trouble started, she said we actually picked it up, the inflationary tendency, during a time when we were trying to hold our pound level with the Deutschmark at 3 marks. Now that was a policy she didn't support, but you pursued. Isn't that the beginning of all our trouble?

CHANCELLOR: No, I'm really not going to go over all that. I think this is absurd. What is important is that we have a very, very strong economy, we have a highly successful economy, we have investment higher than it has ever been before, both in total and in terms of business investment, and as a proportion of the economy as a whole, we have productivity growing faster than it has ever grown before, and we have an excellently performing economy. Now we do have inflation too high, it is necessary to take steps to bring inflation down, those steps have been taken, and the further measure I took today shows quite clearly that the Government's resolve is total and absolute. Whatever is necessary to bear down inflation, we shall take those measures, and that is in stark contrast, if I may say so, with the Labour Party. We heard Mr Smith earlier, that every policy the Labour Party has will simply put inflation higher.

NAUGHTIE: Isn't it the case that we wouldn't have this kind of problem on the foreign exchange markets if we had been full members of the Exchange Rate Mechanism of the European Monetary System, earlier than now?

CHANCELLOR: I think it is impossible to say what the position would be if we had been members of the European Monetary System. But there are no magic answers, no magic solutions. The answer is that obviously there is a strong case for joining the ERM; that is why we have said very clearly, time and time again, that we will indeed join, when as a Government we decide the time is right.

NAUGHTIE: But economic advisers were saying the time was right in 1986! If we had gone in, we would not have this problem now.

CHANCELLOR: That is really not relevant to what we are discussing now, which is the measures to bear down on inflation. I mean, the underlying rate of inflation, if you strip aside mortgage payments, the underlying rate of inflation, even now, I think is far too high, but even now is lower than it ever was in the very best month in the whole of the period the Labour Party was in office.

NAUGHTIE: Do you think the interest rate is going to have to rise again this year?

CHANCELLOR: Well, I see no reason to say that, but as I say, I will do whatever is necessary at any time, but we had interest rates steady at 13% for a period of 6 months, which is the longest period we have had without any change in interest rates for a very, very long time, for a number of years.

NAUGHTIE: So we should not take literally what the Prime Minister said yesterday, namely that what you have done will control inflation? More may be necessary?

CHANCELLOR: Inflation is already coming round, not in the sense that the RPI figures will yet show, that will take a little bit longer, but it will certainly be visible during the course of this year. But already, as I have said, the scale of borrowing,

particularly the borrowing to buy houses, that has fallen very considerably, retail sales are not growing nearly as fast, the overheating in the economy, to use the cliché, is now on the way to subsiding, and I think everybody, you heard what Alan Budd said, everybody agrees that it is merely a matter of time before inflation will be coming down again. That is what really matters.

NAUGHTIE: Isn't there one clear signal that people are bound to take from today's action, namely that tomorrow's trade figures are going to be bad?

CHANCELLOR: I am not going to talk about tomorrow's trade figures. You will have to wait and see what they are tomorrow.

NAUGHTIE: Mr Lawson, thank you very much indeed.

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IRN interview - 24 May 1989

Chancellor There has been pressure on the pound and I have always said that we would keep interest rates as high as needed for as long as is needed to get on top of inflation. And with the pressure on the pound, with the pound slipping back a little bit, and largely because of the strong dollar, but nevertheless looking back that does threaten, if nothing is done, to undermine the strength of the anti-inflationary policy. Therefore it is necessary to restore it by putting interest rates up a point.

Moffitt Although there have been occasions in the past when the pound has been very weak against a strong dollar and that has not produced the sort of imported inflation that many outside observers thought it would, why will it this time?

Chancellor We've always taken the exchange rate into account, it's very important to do so, and I'm not saying that this is going to push inflation higher in itself. What I was saying is that if we had left it, if I had left it, so that the pound was allowed to drift down any further, then I think this would undoubtedly have undermined the strength of the anti-inflationary discipline which it is necessary to put in place. And therefore this has been tightened by the only way possible, which is to raise interest rates.

Moffitt You have been trying to hold base rates at 13% despite relentless pressure from the City that you should put them up. How big a set back is this for you personally?

Chancellor I think you can discount the relentless pressure from the City there are always a lot of voices in the City and they say different things. We have had interest rates at now 13%, which was a high level, for six months, and during that time we saw the medicine working very satisfactorily. We saw the house price boom subsiding, and housing turnover indeed falling very considerably. We saw retail spending coming down so that is subsiding too. And

altogether everything happened just as it should, and so we were on track and that was fine. But as I say we've now had the developments in foreign exchange market which meant that if there had been no reaction the satisfactory progress that we have been achieving so far would have been undermined. And that I was not prepared to allow.

Moffitt You have previously made it clear that interest rates would stay high as long as they need to stay high in order to squeeze inflation out of the economy. This move has been forced on you by external circumstances; can we assume that this latest 1% rise might be reversed earlier than we might otherwise have expected?

Chancellor No, I don't think you can assume anything, except this: that I will always take whatever action I judge to be right in the interests of the economy, in the interests of getting inflation down, and also in the interests of having a strong economy. When I believe it is necessary to raise interest rates, interest rates are raised. I believe there is no point in shrinking from unpopular action; you have to do what is right, and equally when the time comes for interest rates to come down, they will come down. But of course, there is no way I can tell you when that will be.