Dark CONFIDENTIAL (Circulate under cover and notify REGISTRY of movement) Begins: 3+7+82. 18/2/82. Ends: 23/8/87. 2/8/82. GH/0076 - Chancellor 's (Howe) Papers: HIRE PURCHASE CONTROLS /GH/0076 Disposal Directions: 25 주 And Œ 26 /7 2





DEPARTMENT OF INDUSTR ASHDOWN HOUSE **123 VICTORIA STREET** LONDON SW1E 6RB TELEPHONE DIRECT LINE 01-212 3301 SWITCHBOARD 01-212 7676

18 February 1982

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18 FEB 1982

#### Secretary of State for Industry

The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer HM Treasury Parliament Street London SW1

Geol

MOTORING TAXES AND HP CONTROLS.

I welcome the opportunity that our officials had to discuss motoring taxes in December and I know that several detailed points have been put to the Treasury by officials of this Department. Having seen Nigel Lawson's letter to you of 29 January on which he discusses, inter alia, the levels of derv and petrol duties, and David Howell's letter of 2 February about motoring taxes generally, I should like to explain my own position on these questions.

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As you know only too well from our discussions about BL's 2 1982 Corporate Plan and about car prices, the UK motor industry has been having a very difficult time in the recession, exacerbated by relatively low (though sharply improving) productivity and sterling's real exchange rate. Recovery of the industry's fortunes, particularly in the commercial vehicle market, is fragile. It would therefore be most unfortunate if you had to take measures in the Budget which directly or indirectly damaged the industry. I have in mind not only decisions on car tax, VED and fuel duties, but also the wider tax treatment of purchases of vehicles and fuels, since all can have significant secondary effects on demand for the UK motor industry's products.

Turning to specific measures, the SMMT has proposed to you that car tax should be cut to 5%, as a first step towards its abolition and that motor caravans should be taken out of tax. Bearing in mind my general wish to see a Budget which concentrates benefits on industry rather than the personal sector, I am not sure that I would see this as a priority. But I would firmly oppose any adverse change in the rate or scope of car tax.

On vehicle excise duty, our officials have discussed the 4 implementation of VED restructuring for commercial vehicles. Ι

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welcome the intention to introduce this in a way which allows time for any particularly affected sectors to adjust to the new structure. I note that light commercial vehicles are now to be taxed at the same rate as cars. I welcome this as a measure which will benefit the smaller firms who tend to buy these vehicles and also help a particularly hard-pressed sector of the commercial vehicle industry.

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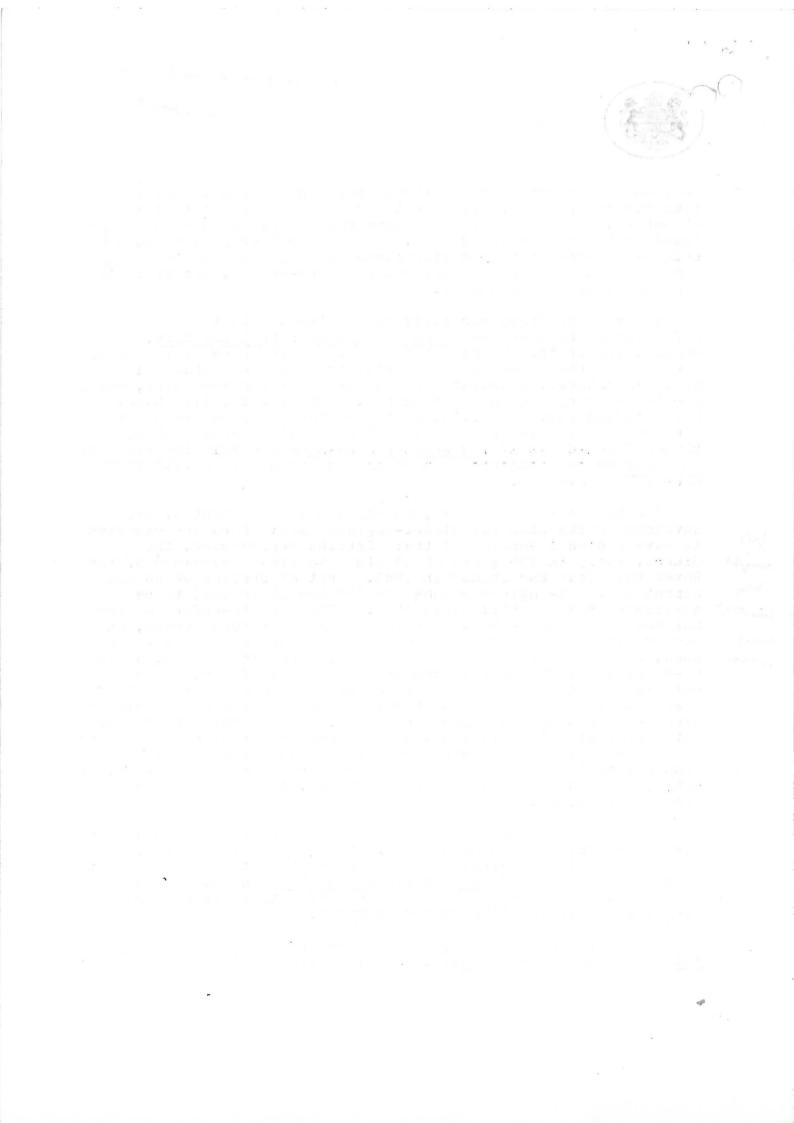
5 I have considered carefully the arguments about the differential between the <u>rates of duty on petrol and derv</u>, recognising on the one hand the benefit to industry of favouring derv and on the other the long-established concern that this might prematurely stimulate demand for diesel-engined cars, which the UK industry does not yet supply. My view is, like Nigel Lawson's and David Howell's, that a differential in favour of derv should be maintained as a feature of the fiscal system, though I would myself lay greater stress on the relative benefits to industry and commerce than on any additional incentive to energy conservation.

The UK motor industry is, as Nigel Lawson indicates, well 6 advanced in its plan for diesel-engined cars: Ford are expected to have a diesel version of their Cortina replacement, the Sierra, early in 1983, and BL should have diesel versions of the Rover this year and Jaguar in 1983. But at present we do not expect a diesel-engined volume car (in the LM series) to be available from BL until early 1985. There is therefore a fine balance to be struck between encouraging the manufacturers, and encouraging demand - which is of course expanding anyway - too soon, to the benefit only of importers. For the moment, while UK-supplied volume diesel cars are still unavailable, I should not wish to see the differential widened to such an extent that there was a major immediate change in the respective economics of diesel-engined and petrol-engined cars. But I think that would not happen with the limited widening proposed by Nigel Lawson and in the interests of industry generally I would support his proposal that derv might be rather less than revalorised - or, if duty yield had to be raised in real terms, that this should come from petrol alone.

7 Nigel further suggests that the Budget statement should make clear our intention to maintain a petrol/derv differential. I would not oppose a fairly neutral statement of this expectation, though again I should much prefer the stated reason, if there is to be one, to be the fact that a very much higher proportion of diesel usage is in industry and commerce.

8 On the wider tax front, I should refer to the possibility of "blocking" VAT on road fuels. While I appreciate that disallowing

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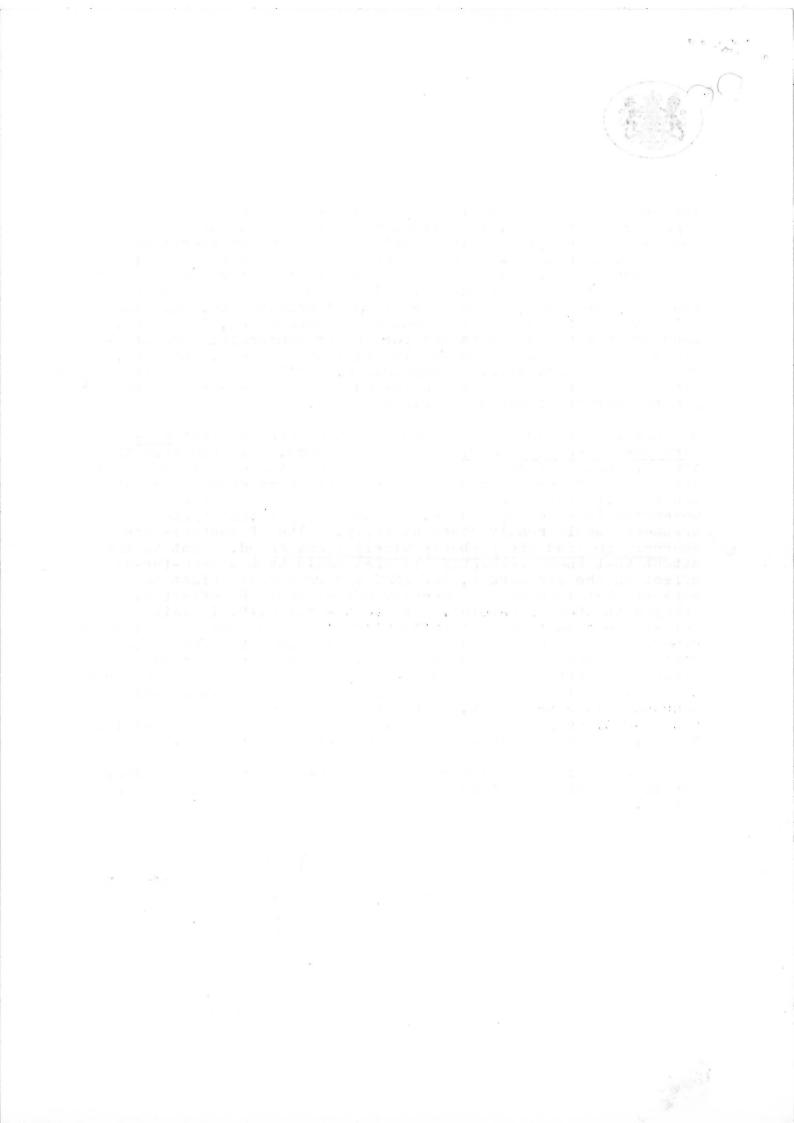




the deduction of VAT on fuels for business use could raise significant revenues, it follows that it would amount to a substantial addition to industry's tax burden and therefore hardly be consonant with the general Budgetary approach which I have recommended. I can see no justification for blocking VAT on industry's transport costs. Though on petrol (not derv) there may be some leakage to employees' private use, this cannot alter the fact that massive amounts of petrol are, like derv, used in industry and commerce for proper commercial purposes perhaps especially by the smaller firm which uses light vans, most of which are still petrol-driven. VAT blocking would be seen by the small business sector as totally contrary to the general thrust of our small firms policy.

Lastly the SMMT have returned to the proposal that hire purchase controls on cars should be relaxed. I know that the then Financial Secretary did not feel able to support this idea last year, on the grounds of its effects on monetary aggregates and the allegedly wrong signal it could give about the Government's monetary stance. I do not feel that these arguments would really stand up today. The HP controls are scarcely policed and probably widely disregarded. But to the extent that their relaxation on cars could have a once-for-all effect on the car market, the SMMT are presumably right to suggest that much of the monetary effect would be offset by changes in stock financing. As to the "signal", I really believe we should have no difficulty presenting action on cars as removal of an outmoded control which discriminates for no sound reason between cars and other goods, and which neither has a substantial effect on monetary aggregates, nor signals more than it says. This would particularly be so if the change were announced in your Budget, where the Government's monetary stance will surely be judged as a whole. I commend such a relaxation to you, at least to levels consistent with other goods.

10 I am copying this letter to David Howell and Nigel Lawson, and because of his interest in hire purchase controls to John Biffen.



FROM: C D HARRISON 19 February 1982

PWF

(in which )

PRINCIPAL PRIVATE SECRETARY -

cc PS/Chief Secretary PS/Financial Secretary PS/Minister of State (C) PS/Minister of State (L) Sir Douglas Wass Mr Ryrie Mr Burns Mr Quinlan Mr Middleton Mr Battishill Mr Burgner Mr Dixon Mr Kemp Mr Ridley Mr Harris PS/Customs & Excise

## MOTORING TAXES AND HP CONTROLS

The Economic Secretary has seen the letter of 18 February from the Secretary of State for Industry.

He would be very much against the proposal in paragraph 9 to relax hire purchase controls on cars.

C D HARRISON Private Secretary



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From: N J ILETT Date: 23 February 1982

with an en MR MONCK

2. CHANCELLOR OF THE EXCHEQUER

cc for: Chief Secretary Financial Secretary Economic Secretary Minister of State(C) Minister of State(L) Sir Douglas Wass Mr Burns Mr Ryrie Mr Ryrie Mr Middleton Mr Quinlan Mr Kemp Mr Kidley Mr French Mr Harris HIRE PURCHASE CONTROLS cc Mr Dixon Mr Lovell Mr Pirie Mr Turnbull Mr A C S Allan Mr Andren

The Secretary of State for Industry's letter of 18 February recommends that hire purchase controls on cars be relaxed. We recommend you agree. As HP controls on cars are essentially a special case of a wider argument, this submission also considers whether the time has come to add HP controls to the Government's bonfire of unnecessary controls. Bank of England officials agree with the thrust of this submission but there has been no time to discuss it with them in detail.

## BACKGROUND

#### Coverage

2. HP controls on cars require an initial deposit of  $33\frac{1}{3}\%$  and repayment within 2 years. Controls on other goods (eg. domestic appliances, televisions) require a deposit of 20% and repayment within  $2\frac{1}{2}$  years. Yet other goods (eg. furniture, motor bicycles) are not subject to HP controls.

## Enforcement

3. The Department of Trade exercise the relevant powers. The last Labour Government abolished virtually all the enforcement machinery in that Department, to save staff. At present 3 DoT officials devote part of their time to policy and enforcement. They can only look at outrageous violations of the regulations, and then only cursorily. The fact that there are many other ways of obtaining credit quite legally undermines the control further.

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## RGUMENTS AGAINST

4. Statutory powers to control credit for economic management purposes (as opposed to consumer protection) extend only to hire purchase agreements. They do not cover bank, or other, loans for the same purpose, as those concerned are well aware. We rely on Bank of England guidance to block this alternative route. This guidance invites lenders not to make finance available on easier terms than would be allowed for hire purchase deals.

5. The Finance Houses Association and other representative organisations regularly complain that the Bank's guidance is not always followed. Specifically, bank managers turn a blind eye, with or without hints. In any event, bank managers have little control over the way money is actually used.

6. There are other ways of obtaining credit; credit cards, automatic overdraft and loan facilities now being offered to "selected" customers by some banks, store credit facilities etc. The growth of these alternatives has eroded HP controls since their beyday 20 years ago.

7. In the nature of things, the evidence on avoidance is largely anecedotal, but the Bank report that the volume of complaints is increasing. Finance houses say they are losing business by complying with the regulations and the Bank's guidance.

8. In short, hire purchases controls are:

- 1. Discriminatory,
  - in their coverage
  - in their effect on consumers (they bear heaviest on people who lack the sophistication to get round them).

This point was made by the Crowther Committee on Consumer Credit in 1971.

- 2. Barely policed (as Mr Jenkin points out).
- 3. Easily, and quite legally, avoided.

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8. The arguments about cars are the same, but more so, given the harder terms. In short,

1. particularly discriminating, for no obvious reason.

- 2. industrially damaging; especially given the increase in car prices over the past few years  $\frac{1}{2}$  is now a large sum.
- 3. avoidable on the grand scale (the Bank's recent specific guidance on mortgages seeks to cover one loophole).

9. IA take the view that a relaxation of hire purchase controls on cars would be most likely to directly affect sales at the cheaper end of the second-hand car market. While this effect would not be massive it could have a useful impact in helping to harden trade-in prices through the whole spectrum of the market, thus eventually encouraging some increase in sales of new cars.

10. UK manufacturers hold about half the car market and any improvement in sales would likely to benefit them in this proportion. The effect on BL would be particularly welcome - in contrast to the position some years ago when they opposed an easing of HP controls on the grounds that BL was not then ready to meet any upsurge in domestic demand. This is no longer the case. They have two good volume cars available in the Metro and Acclaim and stocks are high. Moreover, BL have reversed the earlier trend decline in their market share which is now slowly increasing. They might expect to get at least 20 per cent of any increase in sales resulting from a relaxation of HP control, some of which would be at the expense of imported cars. A further advantage is that easier HP controls may help to choke off some of the pressure to import cars from European dealers. This is because an improved trade-in price should encourage buyers to go to dealers in this country.

#### REASONS FOR MAINTAINING HP CONTROLS

11. Although conscious of the weakness of HP controls, we have defended the existing position with two main thoughts in mind:

- 1. The risk of giving a wrong monetary signal to the markets.
- 2. The possible need for quantitative controls on consumer credit, which (however unsatisfactorily) would have to be built to some extent around statutory HP controls.

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Che possible ment for emanticative controls as educate arealt, which (however numbrateristic) would have to be built to some

On the <u>signal</u>, much would depend on presentation. Relaxation or abolition of controls could be justified as the removal of **another ine**ffective and outdated restriction. Abolition would not be inconsistent with monetary policy because the latter aims at the price of credit, whereas HP controls are a (disruptive and incomplete) form of credit rationing and direction.

13. It is impossible to be entirely confident about the monetary consequences. We suspect however that the controls are already so ineffective that the impact would be minimal. What would be likely is that hire purchase activity would recover some ground from other forms of consumer credit. Instalment credit lending to persons by finance houses has risen by 8% over the past year, as against 32% for bank lending to consumers (50% if mortgages are included).

14. The effect of a relaxation on cars only would be correspondingly less.

15. The option of <u>quantitative controls</u> was rejected by Ministers in October, and that the monthing from the or the or the monthing from the or the monthing from the or the or the start the monthing from the or the or the start the monthing from the or the or the start the monthing from the or the or the start the monthing from the or the start the or the or the start the or the or the or the or the start the or the start the or the start the or the

16. It seems unlikely Ministers would wish to reverse their October decision; but the more HP controls are relaxed now, the harder it would be politically to justify any future resort to quantitative controls.

17. The implication of the monetary consequences is that abolition would have no more than a marginally stimulative effect. However, any stimulus would be channelled towards the consumer goods industries, which are fairly depressed. Unfortunately, UK producers in this area are not particularly competitive. We have to recognise that some of the benefit would go to foreign manufacturers.

#### CONCLUSION

"at lear to levels consistent with other goods"

18. We believe you can safely grant Mr Jenkin's request for a relaxation/in the HP control on cars now.

19. More fundamentally, HF consider that the time may have come to abolish HP controls altogether, as ineffective and alien to the Government's philosophy. The monetary consequences, while not easy to assess precisely, are unlikely to be substantial. There should be political advantages in a further "bonfire". We do

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ot think the risks sufficient to justify a phased withdrawal of HP controls; .n particular, once the present discrimination against cars has been removed, it should not be reintroduced.

20. If you were inclined to consider abolition further, you would presumably wish to consult/interested colleagues and the Prime Minister. On past form, the Secretaries of State for Industry and Trade would support you, though you may not want to mention the possibility of abolition to Mr Jenkin tomorrow, as more work is needed on some of the implications.

21. Specifically, we would need to assess the consequences for the Bank's directional guidance. We have had no time for this yet. The options are:-

- 1. To maintain guidance on the level of lending to persons, omitting references to HP restrictions.
- 2. Simply to ask banks to ensure industry has sufficient finance available, if necessary at the expense of consumers.
- 3. To abolish general guidance (but not specific guidance on matters such as mortgages). The Branch hours like to combine this like specific guidance to the branks again to new scheme or advertising the comparison for commenlunding one the new 12 months

22. If you wish to make an announcement on HP controls in your Budget speech, urgent work will have to be set in hand now.

N.J. Tell.

1. Our recommendation would be to agree with NJ ILETT Mr Jenkin's proposal that the HP terms for cars should be relaxed to the levels consistent with other goods (see paragraph 2) though the Economic Secretary is against relaxation.

2. We think the arguments of substance point to going further and ending the control of HP terms. But there is a presentational argument against doing this (and against withdrawing the Bank's directional guidance) which you will want to consider. The answer to it would be to expose the inequity and ineffectiveness of the HP controls, though this would be more credible if bank lending was under control. I suggest you do not mention this to Mr Jenkin tomorrow but let us know whether you want further urgent work done on it, including consultation with the Bank and other Departments.

P. N. Milkes

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i. It this the structure of substance point to going further and source the control of 52 forms. But there is a presentational expression area not define this (and contact with there is a presentational quidence) which you will same to consider. The interver to it would be more credicle if beau leading was mider control.e I sugged you do not mathing (die to in dentic to consider control.e I sugged you do not intitler regent your done on it, industrie on the tot of the intervert other departments. Your would cone of it, industries consultation with the is a bout a source of a startments. Your cone of the other of the is other departments. Your would cone of it, industries consultation with the is bout and the sector of the cone of it, industries consultation with the life of the sector is when the cone of it, industries consultation of the life.

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ALVIGININI BLVIGININI 2 2 2 2 2 2 2 2 2 2 2 2 2 2 3 2 3 2 3		FROM: C D HARRISON DATE: 23 February 1982
PRINCIPAL PRIVATE SECRETARY	cc	PS/CST PS/FST
To mining the second se		PS/MST(L) PS/MST(C) Sir D Wass Mr Burns Mr Ryrie Mr Middleton Mr Middleton Mr Quinlan Mr Dixon Mr Kemp Mr Lovell Mr Lovell Mr Monck Mr Pirie Mr Turnbull Mr A C S Allan Mr Andren Mr Ilett
HIRE PURCHASE CONTROLS		Mr Ridley Mr French Mr Harris

The Economic Secretary has seen Mr Ilett's submission of 23 February. He believes the HF case is not altogether convincing, because if hire purchase controls have been so extensively eroded by other forms of consumer credit, it is difficult to believe that the abolition of controls on car purchase would have any significant impact on the prospects for the domestic motor manufacturing industry (particularly since at least half the benefit would go to overseas manufacturers).

On the other hand, the Economic Secretary does not believe that the government should entirely ignore the impact that abolition of HP controls would be likely to have on the volume of consumer credit, at a time when the rate of bank lending to the personal sector is already giving considerable grounds for anxiety about its future impact on the growth of the monetary aggregates. While the impact on the domestic car industry might be small, the impact on the growth of the monetary aggregates would be magnified in as much as it was another green light to the banks. If it was deemed inappropriate to abolish HP controls on the motor car industry last year, because of the signal that this might give to the money markets, when the growth of bank credit to the personal sector was much more restrained, then surely there must be stronger reasons for anxiety about such a signal at this time. And the case for going ahead this year is all the weaker now that the outlook for

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the level of demand in the economy is brighter than last year.

But if it were thought desirable for reasons of philosophy - which the Economic Secretary does not underestimate - to abolish HP controls on the motor trade, it seems to him that it would be pointless to retain such controls for other forms of HP credit. And if so, it seems to him that it would be best to pass over the existing guidance to the banks in silence.

CIH

C D HARRISON Private Secretary

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HIRE PURCHASE CONTROLS

I wonder if the decision taken following the short discussion at the end of the meeting with Patrick Jenkin yesterday may not have been a bit rushed. You said at the meeting that you were fairly sympathetic and that you would consider Mr Jenkin's suggestion further. It is important to be clear that his suggestion was for "a relaxation ... at least to the levels consistent with other goods". The EST's minute gives the impression that he is thinking in terms of complete abolition of the controls.

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of a meeting .

2. At present the difference in the controls between cars and other goods are:-

a. the minimum deposit for cars is 1/3 instead of 1/5 and

b. the minimum period is 2 instead of  $2\frac{1}{2}$  years.

The change would therefore be pretty marginal but it could nonetheless be presented as both a measure benefiting industry and a step in the direction of the removal of an obsolete control. Apparently there is some evidence to show that those who enter into HP agreements to buy motor cars tend for some curious reason to favour the products of British Leyland - so the relaxation could bring some benefit here.

.....

3. My strong inclination would be to take up the Jenkin suggestion, and take credit for it in the Budget speech; but to leave the wider questions raised in the HF minute on the complete abolition of HP controls and the consequential amendments to the banks' guidance for more long-term consideration. I don't think the relaxation to bring cars into line with other goods would give the wrong sort of signals to the markets, particularly if it was presented carefully.

P S JENKINS 25 February 1982

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ANCELLOR OF THE EXCHEQUER

FROM: N MONCK 9 July 1982

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Chief Secretary Financial Secretary Economic Secretary Ministers of State (R) Sir D Wass Mr Burns Sir William Ryrie Mr Middleton Mr Quinlan Mr Dixon Mr Lovell Mr Turnbull Mr Firie Mr Ridley Mr Hall

# HIRE PURCHASE CONTROLS

At yesterday's meeting with the Governor you accepted the case advanced in Lord Cockfield's letter of 28 June that the climate of opinion on monetary affairs is now more favourable to abolishing HP controls than at the time of the Budget and asked us to prepare for an announcement before the Parliamentary recess. You wanted this done on two alternative bases: either with or without simultaneous withdrawal of the Bank of England's general directional guidance.

2. I attach a draft reply to Lord Cockfield. It makes the point that the presentation will be important and I shall be concerting this with the Departments of Trade and Industry as well as with the Bank next week and will submit the results to you. The announcement of abolition would presumably be done by Lord Cockfield in an announced FQ. This might be timed to coincide with or least be near the announcement about National Savings. Although the connection between the two is not all that clear, it would be useful in briefing to be able to refer to the National Savings package as current evidence that the Government was maintaining overall monetary control. In a separate submission to the Economic Secretary I am suggesting that the National Savings package might be announced on Monday 19 July or, failing that, 26 July.

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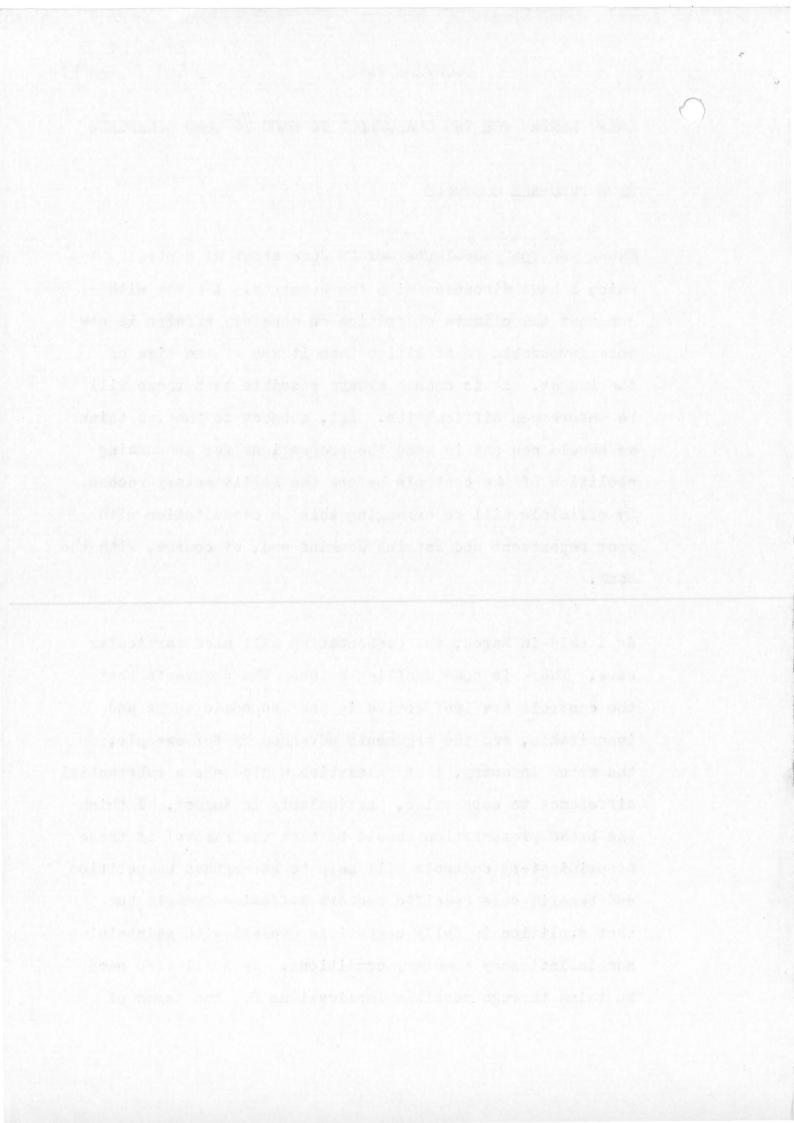
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DRAFT LETTER FOR THE CHANCELLOR TO SEND TO LORD COCKFIELD

## HIRE PURCHASE CONTROLS

Thank you for your letter of 28 June about HP controls, and which I have discussed with the Governor. I agree with you that the climate of opinion on monetary affairs is now more favourable to abolition than it was at the time of the Budget. It is course always possible that there will be unforeseen difficulties. But, subject to that, I think we should now set in hand the preprations for announcing abolition of the controls before the Parliamentary recess. My officials will be arranging this in consultation with your Department and Fatrick Jenkin and, of course, with the Bank.

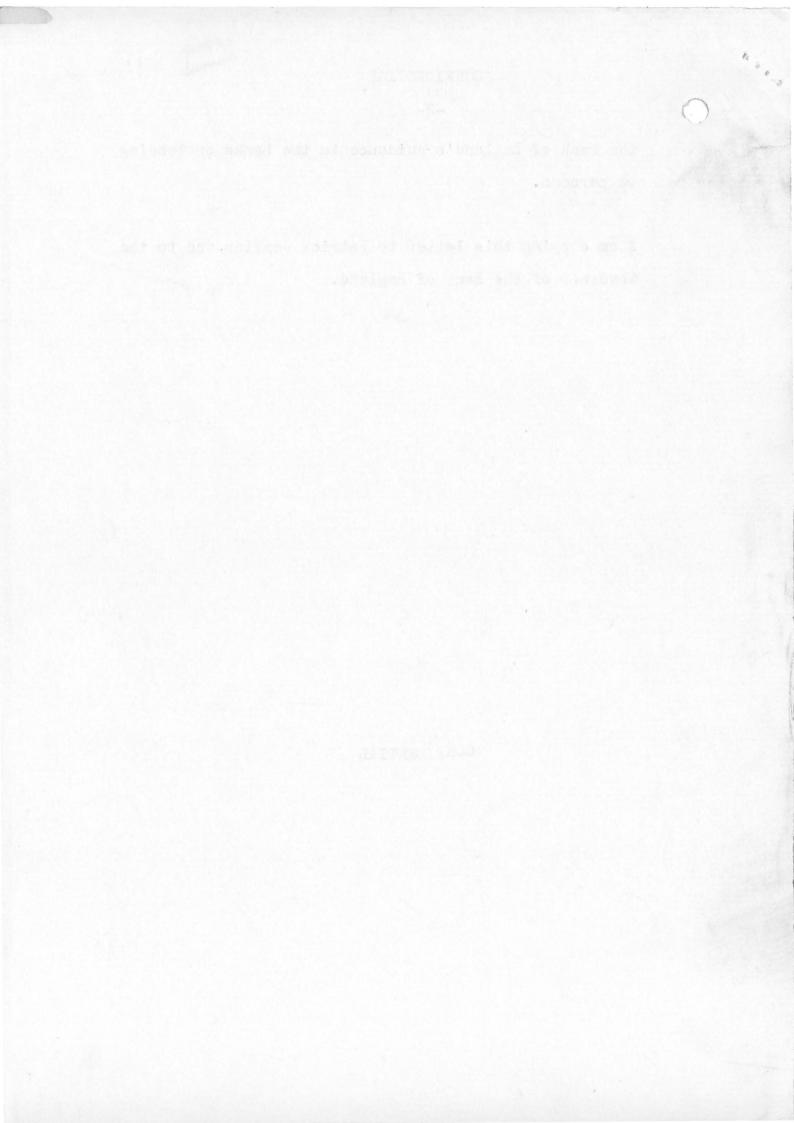
As I said in March, the presentation will need particular care. There is some conflict between the arguments that the controls are ineffective in macroeconomic terms and inequitable, and the arguments advanced by for example, the motor industry, that relaxation would make a substantial difference to car sales, particularly in August. I think the broad presentation should be that the removal of these discriminatory controls will help to strengthen competition and benefit some specific sectors suffering from it but that abolition is fully compatible overall with maintaining non-inflationary monetary conditions. We shall also need to think through possible implications for the terms of



-2-

the Bank of England's guidance to the banks on lending to persons.

I am copying this letter to Patrick Jenkin and to the Governor of the Bank of England.



INTEREST RATES AND REMOVAL OF HIRE PURCHASE CONTROLS

# Line to take

# (i) Interest rates

Share the Secretary of State's view of the importance of achieving low interest rates, both for reducing companies' costs and for improving the climate for investment. In minute copied to Cabinet of 14 July, said that continued downward pressure on interest rates should be a top policy priority. Since then rates have done more than 'drift downwards' (SoS's letter of 13 July): we have achieved further significant reductions (bank base rates down 1½ per cent since late July).

9/7/82

Prospects for further falls depend on domestic monetary developments, in particular the growth of the monetary aggregates and behaviour of the exchange rate, which in turn is influenced by developments in the US. Opportunities for further reductions will be sought so long as we do not thereby endanger the good progress made to date in bringing down inflation, nor jeopardise confidence in our policies.

Prospects for this are good while monetary growth remains within the target range and the exchange rate remains stable.

The recent decline in long-term interest rates is encouraging (e.g. 20-year gilts yield down 2 points since early July). Leading to welcome developments in corporate bond market, beginning with last week's issue of £100 million at 124% by BOC.

# (ii) Exchange rate

[The S. of S. suggested in letter of 13 July that reductions in interest rates could usefully be accompanied by a modest depreciation in  $\pounds$  EER.]

The principal cause of UK industry's lack of competitiveness is industry's failure to control its internal costs, in particular wage settlements. This problem has to be tackled, ANNEX I

INTEREST RATES AND RANCIAL OF HIRE FURCHASE CONTROLS

## hine to take

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# (i) Interest rates

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Prospects for further falls depend on domestic monetary developments, in particular the growth of the monetary aggregates and behaviour of the exchange rate, which in turn is influenced by developments in the US. Opportunities for further reductions will be sought so long as we do not thereby endanger the good progress made to date in bringing down inflation, nor jeopardise confidence in our policies.

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The principal cause of CL industry's lack of competitiveness is inductry's failure to control its internal costs, in particular ways settlements. This problem has to be tackled, rather than resorting to manipulation of the exchange rate, with the attendant inflationary risks.

# (iii) <u>Hire purchase controls</u>

In agreeing to abolition, went further than S. of S.'s original request. Abolition did pose potential additional strain on monetary targets by possible increase in bank lending, though this effect was not in fact expected to be significant. Not yet possible to judge actual effect, as inextricably combined in August figures of car registrations with effect of new letter, and quarterly analysis of bank lending not yet available. But trade has emphasised change in their advertising. rather than resorting to canipulation of the exchange rate, with the sttendant inflationary risks.

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## BACKGROUND

The attached table 1 shows movements in the main indicators of monetary conditions. The target monetary aggregates have been growing at rates within the 8-12 per cent range, and are expected to continue to do so for the next 3 months (the period covered by our internal forecast), though the August figures confirmed our expectations of some acceleration.

The firming in US interest rates this month has been accompanied by a slight weakening of the  $\pounds/\beta$  exchange rate compared with the latter half of August. In effective terms, however, the  $\pounds$  has remained fairly stable over the period.

The rate of growth of bank lending remains high - the apparent slackening in banking May/June was not sustained. Within the total, the rate of growth of lending to persons by the LCB also remains strong (see table 2 below).

Changes in £ LCB advances

Table 2.

	£ mill seasor June		djusted <u>Aug</u>	% change on year
house purchase	+302	+356	+315	+111%
other personal	+ 55	+169	+177	+ 25%
total personal	+357	+525	+396	+ 54%

We are not yet in a position to judge the effect of abolition of HP controls on lending to persons. The LCB figures of 'other personal' lending are thought only to be affected to the extent that persons borrow initial deposits to put down in HP schemes. The Bank's full quarterly analysis of advances and acceptances by all banks will become available later this week, and may cast some further light. The Department of Trade are not able to dissociate the effect on car sales reflected in August figures of new registrations, from those of the new letter and

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#### PACAGROUND

The attached table 4 shows movements in the main indicators of monetary conditions. The target monetary aggregates have been growing at rates within the 8-42 per cent range, and are expected to continue to do so for the next 3 months (the period covered by our internal forecast), though the August figures confirmed our expectations of some acceleration.

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		3	advance	es in £ LCB	Chang
% change on year	ljusted	ally ac		x .	
		Jul.y			
-111% 	+315	+356	+302	purchase	iouse
<u> 25%</u>	+177	<u>4769</u>	+ 55	personal	other
+ 54%	+ 396	+525	+357	personal	total

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#### CONFIDENCIAL

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of special bargain offers available. The September figures may be more revealing.

Mr Middleton's minute of 17 September covering Mr Turnbull's of 14 September set out how officials view the prospects for further reductions in interest rates. There is still thought to be scope for a fall of say  $\frac{1}{2}$  per cent in the near future, though this assessment relies mone on the behaviour of inflation, the exchange rate, and real interest rates than on the behaviour of the monetary aggregates. US developments are a major uncertainty. It may be easier to judge the longer-term prospects for interest rates when the financial forecast is available in about two weeks' time.

## CONFIDENTIAL

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TABLE 1

						Construction of Construction o	
		<sub>RPI</sub> (1)	M1(1)	<sub>金M3</sub> (1)	<sub>PSL2</sub> (1)	3-month(2) interbank rate	£ EER(2)
1982	Jan	12.0	11.1	14.3	12.5	15.0	91.2
	Feb	11.0	9.0	13.9	12.2	14.4	91.5
	Mar	10.4	8.4	13.9	12.0	13.5	90.8
	Apr	9.4	4.3	12.4	11.0	13.7	90.1
	May	9.5	4.0	11.9	10.5	13.4	89.9
	Jun	9.2	6.4	12.6	10.5	13.0	90.9
	Jul	8.7	4.7	11.1	9.0	12.4	91.2
	Aug	8.0	8.3	11.6	9.3	11.1	91.3
	Sept (to da	* ate)	*	*	*	11.0	91.7

Indicators of Monetary Conditions

Rate of growth in 1982-83 target period to date (annual rate, per cent)(3)

## 8.4 11.2 8.8

- (1) increase after previous 12 months, per cent
- (2) average of weekly values
- (3) target range 8-12 per cent
  - \* not available

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fra N. MONCK 16/7/82. cc Chief Secretary Financial Secretary Economic Secretary Minister of State (C) Minister of State (R) Sir Douglas Wass Sir K Couzens Sir W Ryrie Mr Middleton Mr Quinlan Mr Kemp Mr Lovell Deputs a chille learn or not. I have spend

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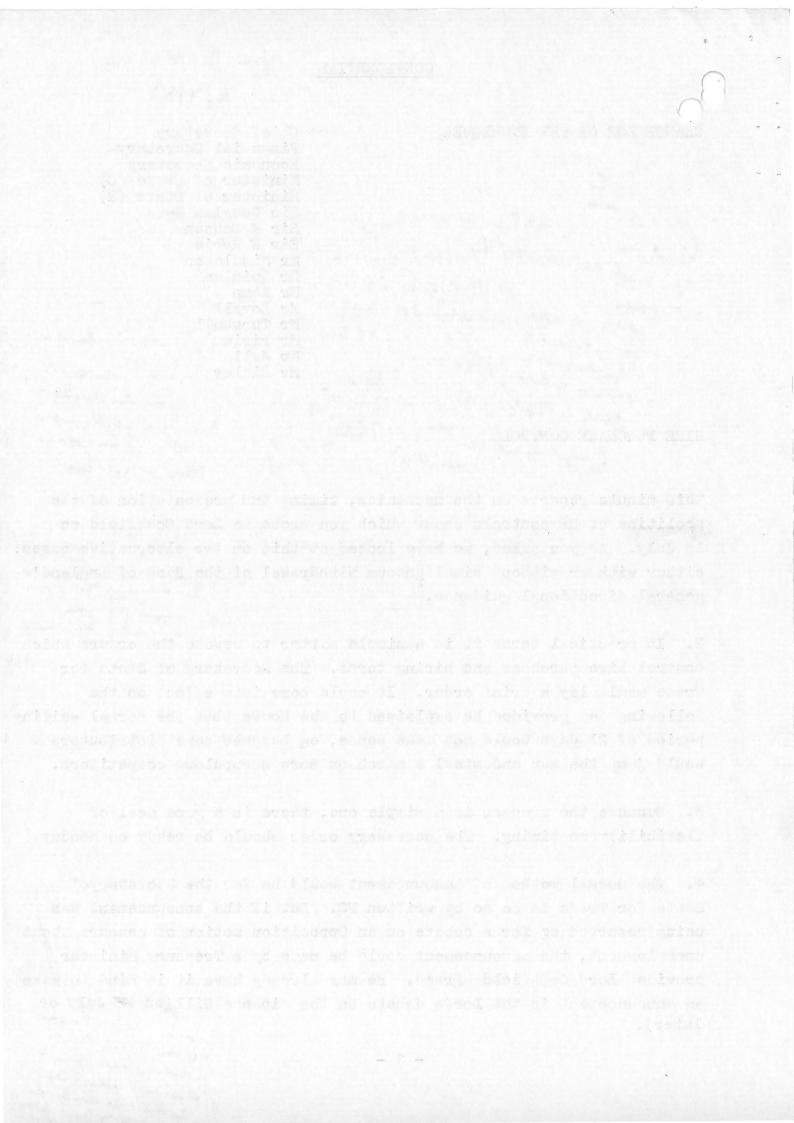
divident with ( Chick) Jois we to wine for me

This minute reports on the mechanics, timing and presentation of the abolition of HP controls about which you wrote to Lord Cockfield on 13 July. As you asked, we have looked at this on two alternative bases: either with or without simultaneous withdrawal of the Bank of England's 20 announe this, time general directional guidance. 1 Jujan no one

In practical terms it is a simple matter to revoke the orders which 2. control hire purchase and hiring terms. The Secretary of State for - "3 Trade would lay a brief order. It could come into effect on the following day provided he explained to the House that the normal waiting period of 21 days would not make sense, eg because some distributors would jump the gun and steal a march on more scrupulous competitors.

Because the process is a simple one, there is a good deal of 3. flexibility on timing. The necessary order should be ready on Monday.

4. The normal method of announcement would be for the Secretaryof State for Trade to do so by written PQ. But if the announcement was being reserved eg for a debate on an Opposition motion of censure about unemployment, the announcement could be made by a Treasury Minister provided Lord Cockfield agreed. He-may already have it in mind to make an announcement in the Lords debate on the Finance Bill (on 26 July or (never 1 ship 1 more later). when 73/73 legith



5. Annex A contains a draft Parliamentary Answer consistent with the presentation suggested in your letter to Lord Cockfield. The Bank and officials from the Departments of Trade and Industry whom I have consulted are content with the broad line, though their Ministers have not yet seen it. Annex B contains some Q&A material which could be used in supplementaries and for Press briefing, provided by Mr Turnbull with contributions from the Bank and the Departments of Trade and Industry.

6. The briefing takes the line that, as with Exchange Control, we envisage that the legislation controlling the powers would remain on the Statute book, but that does not signal any intention to bring back controls. The use of the word "abolition" in the announcement makes that plain.

7. The Department of Industry have not been able to consult the car industry about their ability to meet any increase in demand for new cars produced by the extra effect on the second-hand market of abolishing HP controls compared with bringing the terms for cars into line with those for other goods (as Mr Jenkins recommended). We do not expect the extra effect to be at all large because the credit terms for cars set by prudential and commercial factors seem unlikely to be much more favourable with abolition than they would be under Mr Jenkins' proposal. In any case, as the briefing points out, the position of the car trade is favourable. The SMMT have desribed stocks as "historically high". The latest figures show stocks of 175,000 compared with an average level in a normal year of 125,000.

## The Bank's General Directional Guidance

8. The Bank would like to withdraw their general directional guidance (see annex C) at the same time as HP controls are revoked. The guidance is unclear, hard to enforce and a source of embarrassment to the Bank. General guidance on priorities in lending make little sense in the absence of quantitative controls and in a period of "liability management" when banks do not regard one form of lending as seriously pre-empting another.

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9. The Bank do, however, see a role for issuing specific guidance from time to time. The only extant example is the January notice on mortgage lending which sought to prevent borrowers realising the equity stake in their houses. Although the Prime Minister was disturbed about this, the Bank reckon that it was well received both by the clearers and by the building societies who had asked for it.

10. Annex D contains the Press Notice which the Bank would put out if it were agreed that their general guidance should be withdrawn.

ll. The arguments of substance favour withdrawing the general guidance. But it would make presentation a bit more difficult. It might look like a further green light for bank lending in general and personal lending in particular. It might also provoke criticism about down-grading the importance of lending for industry, even though as Annex D says, the Bank does not consider that withdrawal would have any effect on the willingness of banks to lend for the purposes previously given priority. The Bank is confident that the clearers would not treat withdrawal as a green light and that they would say so if asked by the Press.

12. The alternative to withdrawal would be to leave the guidance and let it wither. There is no need to withdraw it even though it tells banks not to provide loans on "terms easier than those permitted for hire purchase contracts". If asked, the Bank could simply say that this sentence would cease to have any practical meaning.

13. If the general guidance were withdrawn and you were announcing the abolition of HP controls in the House, you would need to consider whether to add a sentence about the guidance. That would not be necessary if Lord Cockfield were announcing abolition in a PQ.

14. The Bank would need a day's notice of the date of announcement to about withdrawal allow time for the physical production of the notice/that would have to go to all banks and licensed deposit-takers.

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(rectant do, however, may a role the inetial question mineres from the so time. So calle extent excepte in the Jenser, pating on rectange lengted with sought to grevent borrelege realising the equite the last however. Although the frime limit ter and inducted about this, the limit role on the fit was well received octo by the element of the building role to and the base of the field.

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11. The regularity of substance involt siturching the general milenes, and it you's take presentation whis each difficult. If there look like a unches reen is his for bank lending in several and personal families in particular. It sight also proved satisfies about for exacing the several definition of bank are that it historich as Armed D on the sillingness of bank to be and the it historich as a sever on the sillingness of bank to be and the it historich as a sever priority. The fine is continent that it historich as a sever antipart of a first is continent that it historich as a sever of the sillingness of bank to continent that it historich as a sever at historic is a several to continent that it historich as a sever to the sillingness of bank to continent the descent route not press at historic is a several to continent that the descent route not press at historic is a several to be an the several as a several at historic is a several to be an the several and the several as a several at historic is a several to be an a several as a several be at historic is a several to be an the several as a several best at historic is a several back to be an a several back back back is at the several back back to be a several back back is a several back back is at the several back is a several back back back is a several back back is a several back back is a several back back is at the several back back is a several back back is at the several back back is a several back back i

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37. F the general stiftings were withdrawn and you were announcing the sholdtion of HP schicking in the searce, you would need to consider the shift of all a mailards about the suitenes. This would not be measured to the dourtised ware known ing shiftsion in Fq.

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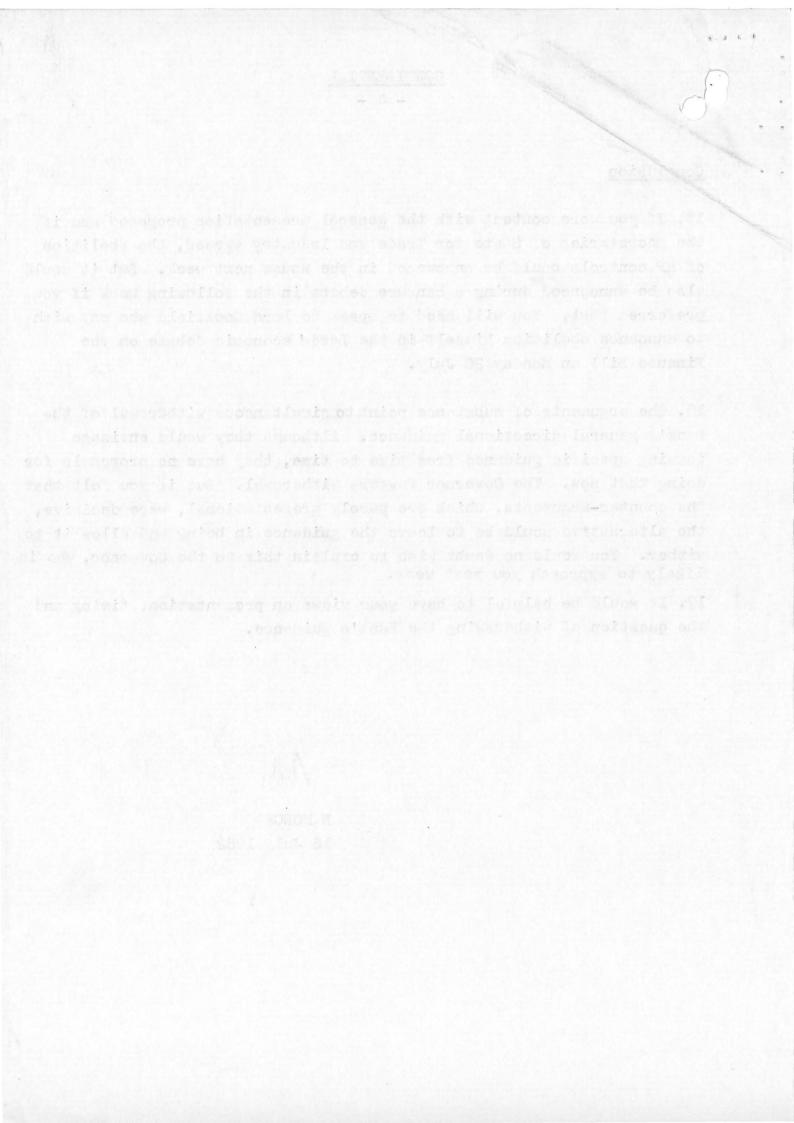
## Conclusion

15. If you were content with the general presentation proposed and if the Secretaries of State for Trade and Industry agreed, the abolition of HP controls could be announced in the House next week. But it could also be announced during a censure debate in the following week if you preferred that. You will need to speak to Lord Cockfield who may wish to announce abolition himself in the Lords' economic debate on the Finance Bill on Monday 26 July.

16. The arguments of substance point to simultaneous withdrawal of the Bank's general directional guidance. Although they would envisage issuing specific guidance from time to time, they have no proposals for doing that now. The Governor favours withdrawal. But if you felt that the counter-arguments, which are purely presentational, were decisive, the alternative would be to leave the guidance in being and allow it to wither. You would no doubt wish to explain this to the Governor, who is likely to approach you next week.

17. It would be helpful to have your views on presentation, timing and the question of withdrawing the Bank's guidance.

N MONCK 16 July 1982



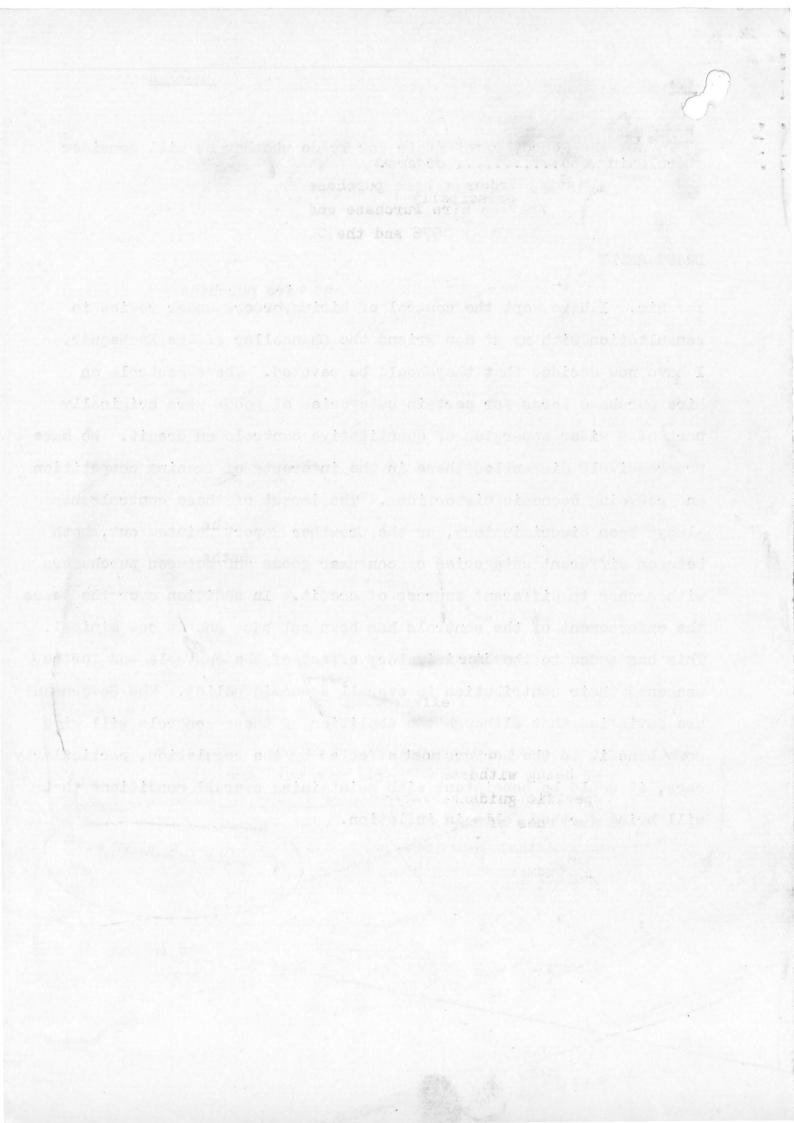
) To ask the Secretary of State for Trade whether he will consider relaxing the ..... orders.

#### DRAFT REPLY

#### and hire purchase

Yes Sir. I have kept the control of hiring/orders under review in consultation with my Rt Hon Friend the Chancellor of the Exchequer. I have now decided that they should be revoked. These controls on hire purchase terms for certain categories of goods were originally part of a wider apparatus of quantitative controls on credit. We have progressively dismantled these in the interests of freeing competition and remvoing economic distortions. The impact of these controls has always been discriminatory, as the Crowther Report pointed out, both between different categories of consumer goods and between purchasers with access to different sources of credit. In addition over the years the enforcement of the controls has been cut back and is now minimal. This has added to the discriminatory effect of the controls and further weakened their contribution to overall economic policy. The Government are satisfied that although the abolition of these controls will give some benefit to the sectors most affected by the regulation, particularly cars, it would be consistent with maintaining overall conditions that will bring further falls in inflation.

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## CIRCULATION

Principal Private Secretary . Mr Littler

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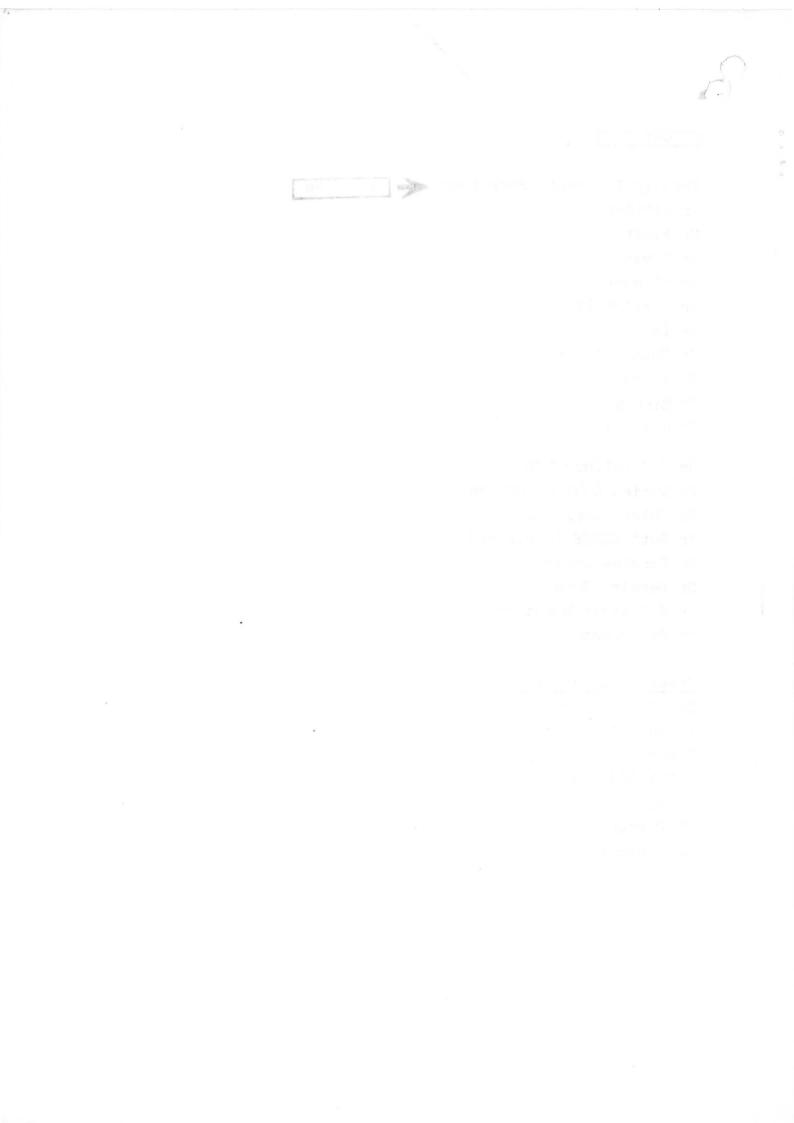
Mr Byatt Mr Unwin Mr Fitchew Mr Battishill Mr Lavelle Mr Bottrill Miss Court Mr Mortimer Mr M A Hall

Mr M J Balfour B/E Mr Durie Cabinet Office Mr Fairweather FCO Mr Butt UKREP (6 copies) Mr Garside Paris Mr Beamish Bonn Mr N L Wicks Washington Mr Richardson Rome

Steering Brief only

Chief Secretary Financial Secretary Economic Secretary Sir P Middleton Mr Ridley Mr Gordon Mr Bostock

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FROM: C D HARRISON DATE: 19 JULY 1982

PRINCIPAL PRIVATE SECRETARY -

cc PS/Chief Secretary PS/Financial Secretary PS/Minister of State (C) PS/Minister of State (R) Sir D Wass Sir K Couzens Sir W Ryrie Mr Middleton Mr Middleton Mr Quinlan Mr Kemp Mr Lovell Mr Honck Mr Turnbull Mr Pirie Mr Hall Mr Ridley

## HIRE PURCHASE CONTROLS

The Economic Secretary has seen Mr Monck's submission of 16 July on the abolition of HP controls.

2. He can still see no sense whatsoever in withdrawing the Bank of England's general directional guidance. It is hardly something about which people lie awake at night; and while failure to withdraw it would pass totally unnoticed, withdrawal would attractattention, strengthening the notion that the supervision of money and credit was meaningless.

C D HARRISON





FROM: J O KERR 19 July **1**982

CC

MR MONCK

Chief Secretary Financial Secretary Economic Secretary Minister of State (C) Minister of State (R) Sir D Wass Sir K Couzens Sir K Couzens Sir W Ryrie Mr Middleton Mr Middleton Mr Quinlan Mr Kemp Mr Lovell Mr Lovell Mr Turnbull Mr Pirie Mr Hall Mr Ridley

HIRE PURCHASE CONTROLS

The Chancellor has seen your submission of 16 July. Subject to the views of the Chief Secretary and Economic Secretary, he favours:-

- a. abolition of all hire purchase controls;
- b. no withdrawal of the banks general directional guidance;
- c. announcement to the House during the censure debate, if indeed there is one. (Likely date now 28 July.)

2. Announcement to the House during a debate would presumably not obviate the need for a written PQ. The Chancellor would

#### CONFIDENTIAL



be grateful if the Economic Secretary would consider the draft at Annex A to Mr Monck's submission. He believes that it - and particularly its last sentence - could be improved presentationally.

3. We shall be in touch with Lord Cockfield about the nature and timing of the announcement.

J O KERR

## CONFIDENTIAL

FROM: MISS J M SWIFT DATE: 20 July 1982



PRINCIPAL PRIVATE SECRETARY

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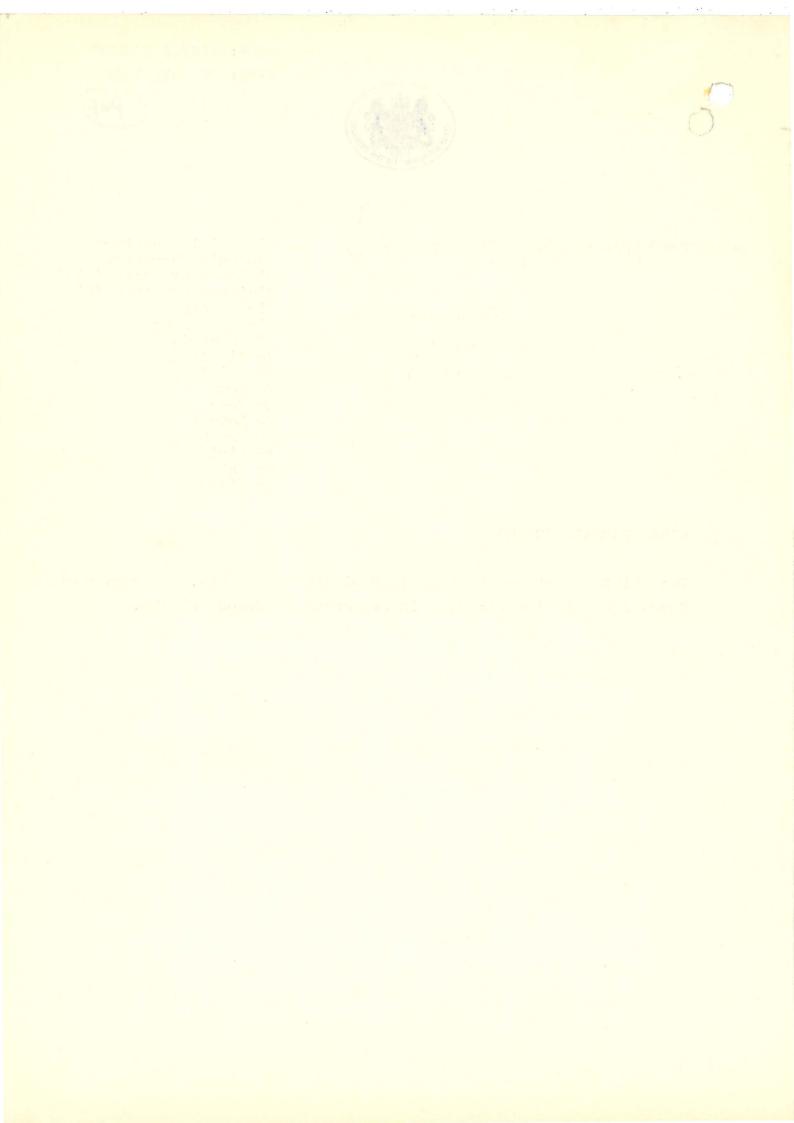
So we are unanimous, internelly, and he only hurdle new is Dr Jenhin's motors-men.

cc Financial Secretary Economic Secretary Minister of State (C) Minister of State (R) Sir D Wass Sir K Couzens Sir W Ryrie Mr Middleton Mr Quinlan Mr Kemp Mr Monck Mr Lovell Mr Turnbull Mr Pirie Mr Hall Mr Ridley

## HIRE PURCHASE CONTROLS

The Chief Secretary has seen your minute of 19 July. He very much favours the action proposed in paragraph 1 of your minute.

MISŠ J M ŚWIFT



RESTRICTED



FROM: THE ASSISTANT PRIVATE SECRETARY DATE: 20 JULY 1982

PS CHANCELLOR

cc PS Chief Secretary PS Financial Secretary PS Economic Secretary PS Minister of State (C) Sir Douglas Wass Sir Kenneth Couzens Mr Middleton Mr Quinlan Mr Quinlan Mr Kemp Mr Lovell Mr Horck Mr Turnbull Mr Pirie Mr Hall Mr Ridley

HIRE PURCHASE CONTROLS

The Minister of State (Revenue) agrees with the Economic Secretary's view reported in Mr Harrison's minute of 19 July; he feels that withdrawal of the Bank of England's general directional guidance will raise a storm out of all proportion <sup>1</sup>. to the issue.

Om Milner

J C MILNER



C. If you agree, 2111 speak to

Econmic Scinet

Mr And I lita My Lorall

Si D mass

Mr. Jucha

Mr Hall

FROM: A H LOVELL

21 July 1982

DATE:

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× h be included. Mr Chivers

Hdl. 21/101

MR MONCK 1.

PRINCIPAL PRIVATE SECRETARY 2.

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Consulting the mangactures runs the risk of getting an answer against abolition. But unless the Chancellur and Low Creupices are prepared to pur pressure on Mr Denkin, I don't see when other Course gives in any chance of reading his doubts. ABOLITION OF HIRE PURCHASE CONTROLS I have shirtly amended the last paragraph.

MM 21 Jul

I understand that the Secretary of State for Industry wishes to consult representatives of the motor car industry before agreeing to the total abolition of HP controls on motor vehicles. I have spoken to the Department of Industry officials and if there are such consultations they propose to consult Mr Horrocks (BL), Mr Turnbull (Talbot), Mr Toy (Ford) and someone at Vauxhall. The SMMT would not be approached. The Society would have considerable difficulty in giving a considered reply since they represent motor traders as well as the motor manufacturers, the traders are of course enthusiastic supporters of total abolition. - as last weeks letter shaved.

2. DOI officials believe that the representatives of the car industry will argue for a phased abolition over a long period - perhaps 2 or 3 years rather than a sudden death. This is because HP controls have largely operated in respect of private rather than business purchases, and the manufacturers fear that total abolition would lead to a sharp up-surge in demand for imported cars. If this coincides with the introduction of the new registration letter in August, the of new car sales might show a large proportion of foreign cars statistics for a month or so.

3. In my view this attitude implies excessive caution on the part of the industry. There is likely to be a sharp increase in imported car sales in August as the new registration letter comes in, and no doubt the abolition of HP controls would strengthen But it is still the case that the HP controls bite on a relatively small this. proportion of car buyers, and that the main immediate effects will be felt in the secondhand car market. Moreover stocks of cars are high, and the British manufacturers are well placed to take up the challenge. But the views of the industry cannot be entirely discounted, if indeed they also take the view that outright abolition might

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be damaging. It would not be reasonable to deny the Secretary of State the opportunity to sound out the industry on this matter.

4. There is one point on which Mr Monck might advise. The Secretary of State although monitor induring feature present molecular and might perhaps be advised to point out to the industry that/the opportunity to cannow horded on tobe available of finite which may how ideal and the monitor of the and the available of the form of the present of the course of monetary conditions and other factors which could inhibit the Government from further relaxing the controls. But the precise form this might be put I would prefer to leave to Mr Monck.

A H LOVELL IA

#### CALCULATION O

be destephy. It would not be reasonable to damy the Sectetary of State the error tasks to actual out the industry or this welter.

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FROM: C D HARRISON DATE: 22 JULY 1982

PRINCIPAL PRIVATE SECRETARY

cc Sir D Wass Mr Middleton Mr Quinlan Mr Lovell Mr Monck Mr Chivers Mr Turnbull Mr Hall

ABOLITION OF HIRE PURCHASE CONTROLS

In his minute to you of 21 July, Mr Lovell says that DOI officials believe that representatives of the car industry will argue for a phased abolition of hire purchase controls over a period of perhaps 2 or 3 years, rather than outright removal.

2. The Economic Secretary wishes to report that when he was lobbied by a group of Midland MPs last Tuesday, they were unimpressed by the argument that abolition would merely lead to a flood of imports. They argued - presumably based on what they are told in their constituencies - that at least 40% of extra sales would go to domestic producers.

C D HARRISON

PERSONAL



FROM : J O KERR DATE : 23 JULY 1982

CHANCELLOR

HP CONTROLS

We have chased the DOI; and the position there is now as follows:-

- a) The **fo**indings among motor manufacturers have revealed no unanimity, but a general disposition to encourage us to go ahead. Amusingly, some have jumped to the conclusion that we may be after all following the CBI's reflationary recipe, and be about to announce a major package, of which relaxation of HP controls would be a minor component, and have said that they very much hope that we don't. (I wonder whether Mr Jenkin will report this to you).
- b) Some in the DOI are worried about a surge of imports of television sets.
- c) However, the consensus among DOI officials is that we should go ahead and abolish all controls.
- d) Mr Lamont, who was previously doubtful (re cars), now agrees with officials.
- e) Mr Jenkin is aware that he must make up his mind this weekend. He will be considering a draft letter to you (agreeing to your proposal).

So we wait and see. We'll chase DOI early on Monday again if no letter turns up. And so will DOT, even more structurely, give that they pla to make the statement a italing.

PS. To reduce risk of gubernatorial anbrage, I explained to his office (in parallel to March/ Back) The reasons for you decide Rat The General Directonal quidance "sha not be scrapped. No come-back (yet).

J O KERR



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CHANCELLOR

1've prayed with draft - but I don't Know anything abt Economic Secretary the subject. cc Sir Douglas Wass Mr Middleton Mr Monck Mr Turnbull

John

#### HP CONTROLS

I attach a draft reply (which you asked for urgently) to these letters from Sir Julian Hodge, which urge that any relaxation of HP controls should discriminate against Japanese cars. This suggestion of course runs up against international obligations, irrespective of any wider considerations. The draft draws on the briefing for today's announcement of the abolition of HP controls.

2. In the time available, we have not been able to make a full search in HF for Sir J Hodge's letter of April 1981, which never received a reply, but we are pretty sure that we did not see it at that time.

N.J. Dett.

N J ILETT 26 July 1982 ee Soonwis Socretar Sir Booglas Wasa Hr Siddleton Hr Honei Mr Turabull

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I artisch a draft pepty (which you asked for organity) to these latters from Sin Julian Hodge, which unge that any relaxation of HF controls chould discriminate against Jappnese care. This suggestion of course runs up against international obligations, irrespictive of any wider considerations. The draft draws on the briefing for today's announcement of the shelltion of MF controls.

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DRAFT

in fact

FROM: CHANCELLOR

TO: Sir Julian Hodge The Carlyle Trust Limited 31 Winder Place Cardiff CF1 3UR

Thank you for your letter of 23 July. I am sorry you never had a reply to your letter of 13 April 1981; I am afraid that my offer we cannot trace any record of that letter.

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As you will have heard by the time this letter reaches you, we have decided to abolish all hire purchase controls. Changes in the structure of the consumer credit market mean that these controls now contribute little to overall economic policy, and fix well with our policy of removing restrictions abolition de consistent with our policy of removing restrictions and eliminating distortions in the economy wherever possible.

I expect that there will be some benefit to the motor industry, which was particularly affected by the hire purchase regulations. but this benefit should be consistent with our economic policy. Currently Stocks of British-made cars are/high, so there should be no sudden boom in imports as a result of the lifting of controls.

To relax As you yourself hint in your letter of 23 July 1982, a relaxations foreign (or ever for possecurd had In a mannes of HP controls which discriminated against Japanese cars would cars have breach our international obligations. It is not therefore an munifield we could casales. option, which we can pursue. Glearly foreign manufacturers will I am fascinated by your accart of how Ford, all he BL, let he

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Japanese in by changing her pling on dealerships.

C: Sir Juliss Lodge The Carlyla Truct Limited S1 winder Fince Cardiff CB4 302

incole 300 for your latter of C. Suir. I am rorry you sever bad a really bolyness letter of 73 april 1987; I am atraid that a ag oneont trace any record of the latter.

As you will have need by the tire purchase controls. Georges have decided to solver will bire purchase controls. Georges in the structure of the constant credit series tess that tress controls new contribute little to overall economic policy, and phalition to constructed with our policy of recoving restriction and elisication distortions in the economy whenever controls

% suggest that every will us stud banefit to the motor liduelry, which was particularly alfeated to the bire purchase regulations, but this benefit sheeld be consistent with our events is reliep; btocks of foltish and core are list, which are monthing ac sudgest to intropris.

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in the *d HP* controls. But I do not think share/any benefit from *HP* abolition/with British manufacturers, mar could have been avoided, given the control and personation but this is inevitable given the share of the market which St toreign cars into the British marker in recent years. I do not however foreign vehicles have won in recent years. behave that that consideration chould have deterred us from making this move (- and I speak as the man who had to imposedimine purchase controls as minister of Trade in the early 1970s). overall effects will be boughting. betwee its [G. H.]

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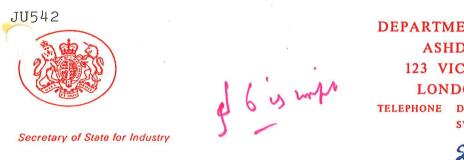
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DEPARTMENT OF INDUSTRY ASHDOWN HOUSE 123 VICTORIA STREET LONDON SWIE 6RB TELEPHONE DIRECT LINE 01-212 3301 SWITCHBOARD 01-212 7676

27 July 1982

Rt Hon Sir Geoffrey Howe Chancellor of the Exchee Treasury Chambers Parliament Street London SW1	e QC M quer SFC	4P EXCHEQUER 2 8 JUL 1982	Sin D Wass Sin 14 Coursem Mh Middletin Mh Quintan	
	ACTION	M Monck 28/2	Mh Kemp	
	COPIES	CST	M Lovell	
~	TO	FST	Mr Tunbull	
Dear Geoffrey,	EST		M Pine	
HIRE PURCHASE CONTROLS		MISTR	Mh Hall Mh Killey	

As you will be aware, Arthur Cockfield announced in the House of Lords this afternoon the abolition of HP controls.

2 I am writing to you now because I think it would be helpful if I recorded the outcome of the consultations which my Department carried out with the industry prior to this announcement. I was grateful to you for agreeing to a quick round of consultations. This was carried out in strictest confidence, with the Heads of the four major car assemblers. Although three of the four were opposed to abolition, as distinct from relaxation, their reasons were of a general economic and prudential kind. In particular, they feared that abolition would lead to consequences which would necessitate re-imposition of the controls at a later date. I do not attach particular significance to these views.

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3 As regards the effects on the UK car manufacturing industry, all four felt that stocks of finished cars were sufficiently high for them to be able to cope with a sharp peak of business in August and September. Although they all pointed to the likelihood of an extremely turbulent car market in those months, with abolition coming on top of the start of the new registration year, they believe that their companies could maintain their normal market share for those months and that there would be no permanent adverse effects in higher import penetration. I therefore took the view that there were no compelling reasons so far as the interests of the UK car producers are concerned for delaying an announcement on abolition of controls.

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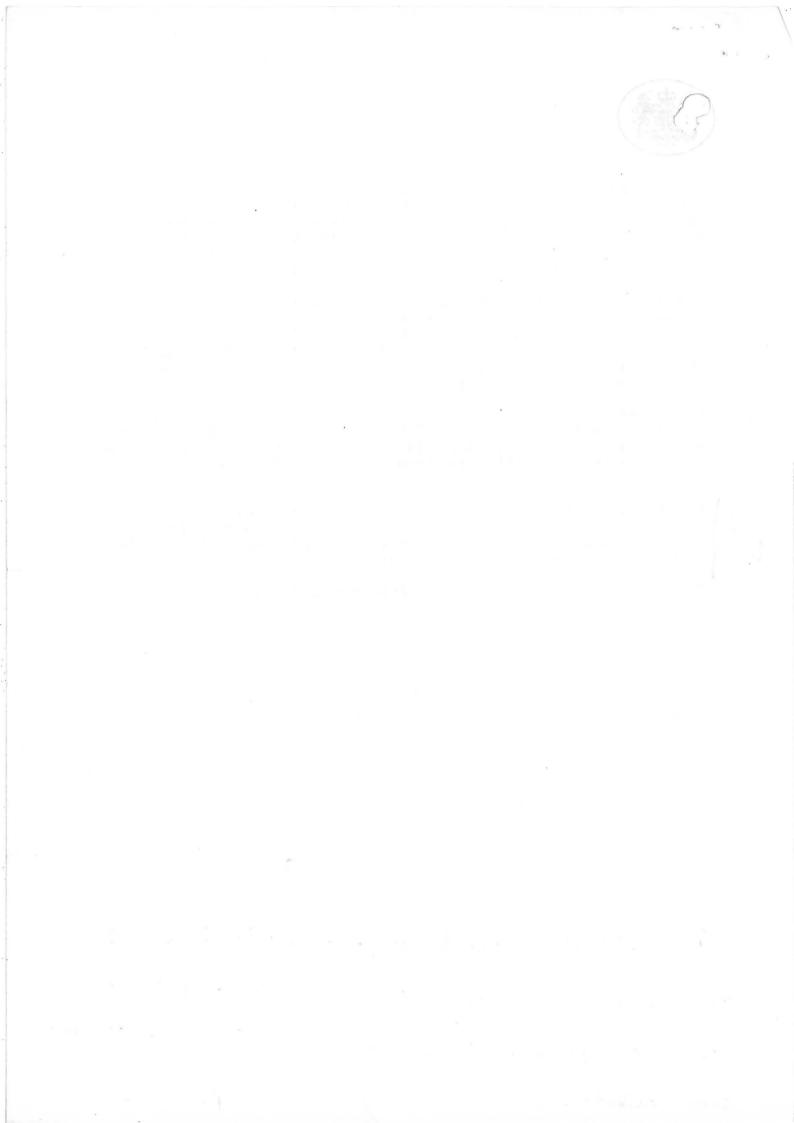
4 The other sector in which abolition may have an impact is consumer electronics, in particular television and teletext sets. Abolition is likely to work more in favour of retail and against TV rental, and it is the rental business on which the UK industry is most reliant. UK manufacturers may therefore see removal of controls as working against their interests and in favour of imports, and we may face some criticism from this quarter. While recognising this concern I do not think that it is substantial enough for me to oppose the abolition of controls. However, we shall need to keep a close watch on the effects on this industry and it may be that there will be a case for reconsidering the capital allowances available in the rental sector as a means of offsetting any adverse impact.

5 Taking into account the view of both the car manufacturers and consumer electronics sector, I was prepared to agree to total abolition of controls, although I think it right to warn you that there may be some criticism from the TV manufacturers and rental companies.

6 One point on which I hope we may be able to give some assurance to industry would be to make it clear that there will be a stable regime from now on and that we have no intention of reintroducing what we regard as outdated controls.

7 I am copying this letter to Arthur Cockfield.

I attach queak impedance to § 6 above. It would be deeply damaging to confidence in the industries offected if we were later to reinpose soch control.



PS/CHANCELLOR

FROM: N J ILETT 27 July 1982

cc PS/Chief Secretary PS/Financial Secretary PS/Economic Secretary PS/Minister of State (C) PS/Minister of State (R) Sir Douglas Wass Mr Middleton Mr Middleton Mr Quinlan Mr Kemp Mr Lovell Mr Monck Mr Hall Mr Turnbull Mr Ridley

HP ABOLITION

As requested, I attach a one-page note on the reasons why abolition should not now lead to a 1973-type import boom. This draws mainly on the material attached to Mr Turnbull's minute to Mr Hall of 26 July.

N.J. Jett.

N J ILETT



TLOF: N J TLEED EL JULY 1983

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is requested. I shield a one pare whith on the reasons why shalloide should not now tend of a d999-type import hoon. Whis draws mainly on the varial strand to Mr Taraball's sincto to Mr Hall of 25 July.

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K 2/2	Mr Middleton Mr Quinlan
3/0	Mr Kemp
	Mr Lovell
1	Mr Pirie
V	Mr Davies
	Mr Hall
	Mr Ridley

# HIRE PURCHASE CONTROLS

In his letter of 27 July the Secretary of State for Industry recorded the outcome of his consultations with the four major car assemblers and with the consumer electronics sector. He thought that there might be some criticism from UK TV manufacturers and rental companies and mentioned the possibility of "reconsidering the capital allowances available in the rental sector as a means of offsetting any adverse impact".

2. The attached draft reply ignores that suggestion but accepts Mr Jenkins' suggestion that if the possibility of reimposing HP controls is raised, Ministers should say that they have no intention of doing so. I suppose that if some way of restraining consumer credit in general could be devised, the Government might some day wish to resort to it. But it is difficult to see any circumstances in which the reimposition of HP controls by themselves would make substantive sense, so I think the assurance is a reasonably safe one.

N J MONCK 2 August 1982

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#### CONFIDENTIAL

DRAFT REPLY FROM

CHANCELLOR to SECRETARY OF STATE FOR INDUSTRY

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## HIRE PURCHASE CONTROLS

Thank you for your letter of 27 July in which you recorded your consultations with industry before you agreed to the abolition of hire purchase controls which Arthur Cockfield announced on 22 July.

2. In the event reaction to the announcement was satisfactory and I am sure that the decision we took was the right one. It is very useful to have on record the belief of the four major car assemblers that their companies could maintain their normal market share in August and September and that there would be no permanent increase in import penetration.

3. I agree with you that it would be damaging to the confidence in industries concerned if we were later to reimpose hire purchase controls. The parliamentary announcement pointed out that these controls were originally a part of a wider apparatus of credit control and that changes in the structure of the consumer credit market meant that they now contributed little to overall economic policy. Against this background I think that if the possibility of reimposing hire purchase controls is raised by industry, we should take the line in the briefs prepared by our officials. This was that we are very conscious of the disruption that reintroducing hire purchase controls would cause for the industries affected and that we have no intention of doing so.

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CRANDELLOR to SPORERARY OF STATE FOR LIVIDUSTED

## URB PURCHASE OOWNOLS

Unank you for your letter of W. July included you recepted yourconsultations with Industry before you agreed to the abolition of hire perchase controls which intrus Cockfield attounded on 22 July.

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(SIGNED)

I am sending a copy of this letter to Arthur Cockfield.

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