

PRIME MINISTER

1. I attach an article from today's Guardian which trails the Conference issue of "Crossbow" (not yet out).
2. In "Crossbow" there is apparently an article by David Howell arguing for large scale schemes of capital public expenditure.
3. This follows a speech by David Howell on September 23rd in which he begins to attack what he chose to call "make-believe monetary simplicities".
4. Two days later he had an article in the Sunday Times (25th September). In this he highlighted the problems of: cuts in capital programmes hitting the private sector; cuts in taxation being constrained by public borrowing targets; and excessive concentration of control in the private sector eg. agriculture and pensions. His remedies are action to encourage the self-employed, a selective policy on public spending and a systematic questioning of Government functions to bring down public spending (without specifying what they are).
5. I attach also the speech and the article only if you want to read them in full. I have tried to provide a brief resume above.

S.S.  
Stephen

4th October, 1983

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## Tory group wants more radical economics

By Colin Brown,  
Political Staff

Unrest among Tory supporters over the continuation of Mrs Thatcher's economic policy will be brought into the open in a strong attack being planned for the Bow Group's newspaper, *Crossbow*.

The group, who are far from being wet, have timed the attack to have maximum impact on the Tory leaders by appearing only three days before the annual Conservative Party conference in Blackpool.

The former Home Secretary, Lord Whitelaw, was savaged in a similar attack in *Crossbow* before a previous Tory conference. The tone of the article deeply upset many Tory supporters, including critics of the way he handled law and order issues.

Since then *Crossbow's* editor, who wrote the attack on Lord Whitelaw, has been replaced. But it is understood that the article due to appear this week promises to be equally uncompromising.

The group, which includes 90 MPs and seven government ministers among its members, criticises the government for not being radical enough in its economic policy and in its approach to the welfare state.

They believe that Mrs Thatcher should seize the opportunity of her general election victory, while the opposition parties are in disarray, to advance new policies, particularly on the welfare state.

The group believes that the government should now face the difficult task of revising social policy to take account of low economic growth. That could mean the better off seeking insurance policies to pay for their health care.

A range of policy options will be put forward by the group in a separate paper to be published next Monday. But the *Crossbow* article will argue strongly for action sooner rather than later.

Mrs Thatcher has let it be known that she believes there should be a fundamental review of the welfare state during this parliament for action in the next. Bow Group supporters do not believe that she should wait another five years.

They advocate stimulating the economy by carrying out large-scale public schemes, such as the provision of more main line electrification of the railways, possibly with private finance.

This particular cause is now being advanced by a former apostle of Thatcherism, Mr David Howell, who was dismissed by Mrs Thatcher from his post as transport minister in the cabinet reshuffle after the general election.

Mr Howell, who appears to have gone through a conversion from monetarism, is understood to have written a critical article for *Crossbow* attacking the government's fixation with money supply. However, he also ridiculed the monetarists in a *Crossbow* article in February, 1974, before apparently joining them.



Mr David Howell:  
converted monetarist





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RT HON DAVID HOWELL MP

Release Time:

19.00 HOURS/FRIDAY 23RD  
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673/83

Extract from a speech by The Rt Hon David Howell MP (Guildford) to the Executive of Guildford Conservative Association, Guildford, on Friday 23rd September 1983.

### THE ISSUES AHEAD

In the months and years ahead the danger to the Conservative Government will come not from being too radical and firm and positive, but from not being radical and firm and positive enough.

We have nothing to fear from the patchwork mish-mash of SDP policy, as it has so far come over, let alone from so-called Liberal policy. These are yesterday's ideas addressed to yesterday's problems.

But we would have something to fear from any loss of intellectual momentum in developing our own ideas, and also from being sidetracked into pointless political rows and battles which may make good copy but are not necessary to make progress - indeed, delay it.

TAXATION Take taxation, for example. We are still a high tax country. Efforts to ease the tax burden on new enterprise, and thus on new jobs, have been commendable, but have also of course made a complicated system yet more so.

Yet if one clear message has come from the opposition parties - especially from the SDP - it is that they think personal taxes should be higher still.

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Such a course would be pure socialist madness. The Conservative commitment all along has been to getting taxes - especially taxes on earnings - well down. We should not, and must not, be diverted from that goal. A lower tax country would be less inflation-prone, not more. Lower taxes would help, not hinder, government finances. They are the key to the wider ownership of capital and greater sense of industrial responsibility upon which future stability in our society rests.

LOCAL  
GOVT

We need equal determination in dealing with local government problems. Clearly the doubts are widespread as to whether the new powers now proposed go anything like deep enough into the inseparable questions of local government finance and local government structure.

More controls from the centre, however well intentioned, will hardly dent the problem and cause endless political ill-will, so long as local government spending activities are so wildly out of line with the sums raised by local government in tax, and as long as the local rating system is so inappropriate.

What went wrong before - in 1972 - with local government reform was that structure and finance became separated. The same must not be allowed to happen again. For example, a question that surely demands more thorough debate is whether education, which amounts to some 40% of all local spending, really has to be financed through local government as the orthodoxy at present insists.

If there is a central cause of the bad blood between central and local government, of the unhealthy size of central government support and of the consequent weakness in local democracy, this is it.

RATES

As for local tax reform, the problem of business rates remains wholly unresolved. <sup>/For the longer term,</sup> I believe we shall have to look far more boldly at ideas now being heard in some areas for localising income tax and relating it more closely to people than to businesses and place of work. Modern technology makes this far less of an administrative problem than it once seemed.



## VALUE FOR MONEY

We will need better focussed radicalism in other areas, too. Industrial subsidies, regional aids and agricultural support all eat large sums while giving questionable value for money. Fresh policy is overdue in all these three areas. Too many of the welcome reforms now being seen through in fact spring from initiatives born over two years ago. Not enough new initiatives are in the long pipeline of change.

The defence spending debate at last looks like opening up after the big expansion - around 20% above inflation - of the last five years. But here, too, it will be important not to be diverted from the needed questioning of policy into a candle-ends exercise.

Meanwhile the British industrial structure still remains far too centralised and old-fashioned, and thus favourable to the old industrial establishment, state and private. But it is new business which should be king and for which the world should be organised. And it is this which the whole of Whitehall policy should put first - especially when it comes to bringing more competition and new services into the areas dominated since the War by the state monopolies and monoliths.

The Government should not be afraid of a thoroughly open debate on the major priorities, defence, industrial and social. People would welcome it. The 'shock-horror' stories would soon give way to a better and wiser discussion, as recent experience already shows.

## MONETARY POLICY

This wide debate is particularly important so that we do not become sidetracked into a sort of monetary monotheism - a belief that dedication to a single pattern of monetary and fiscal arithmetic will produce all the answers in due season.

It has long been evident that, while prudent monetary management must be sought, the connection between that task and the annual size of the budget deficit is not a simple one. Nor is the connection with interest rates for Britain. And nor is the link between the size of the deficit, even if that was decisive, and the actual management of public expenditure and taxation.



Contrary to theory, some expenditure cuts can increase the deficit they are supposed to reduce, especially capital cuts. And some tax reductions would reduce the deficit the monetary mathematicians swear would be increased.

I greatly welcome the vivid way in which a recent Daily Telegraph editorial puts the point - "While everything should still be done to restrain current spending, the Government must not fall into the trap of trying to dig a hole in soft sand which fills as fast as it is cleared."

The key in all this is not to confuse positive purpose with economic vogue. The fashion of make-believe monetary simplicities has, I hope, passed. The broader, less ossifying vision of a nation released for enterprise, a widening democracy based on a widening ownership, and on less but better government, is, I hope, about to unfold.

A generation ago T.E. Utley, one of the wisest Conservative thinkers of our time, reminded us that the Conservative genius lay in the capacity and tendency to react against the particular ideas which happen to be in vogue at the moment. That is the saving grace and the quintessential quality of our party and our nation and we should never forget it.

END.



# Battle lines for Common touch

SUNDAY TIMES  
25 SEPT 1983  
Gerald Segal



by  
**David Howell**

● The Right Honourable David Howell, Conservative MP for Guildford since 1966, served in the first Thatcher Government as Secretary of State for Energy and later as Secretary of State for Transport

WHAT progress has the government made towards the long-standing Conservative ideal of the property-owning and capital-owning democracy? The attitudes have changed dramatically cannot, be questioned. That inflation is at its lowest for 15 years, that more people than ever want to buy their own homes - these are incontrovertible facts. But it is also an awkward reality that public expenditure still claims almost as large a share of national resources as ever (46.5 per cent), creating appallingly complex and virtually unmanageable problems of public finance. Operating at these mounting levels of public spending the government finds that almost every move it makes immediately sets up counterforces from new directions. The room for manoeuvre is minimal, indeed non-existent.

Attempts to cut a way out through the public expenditure jungle all too often lead to cuts in capital programmes, with immediate and damaging effects on private sector supplies and on corporate profits, with upward pressure on bank borrowing and the monetary aggregates which the cuts were intended to reduce. Nor have attempts to influence the "growth" climate through pulling Britain away from its long-established levels of formidably high taxation had much more success.

Here again Catch 22 prevails. No adequate expansion and opening up of new business opportunities without substantial reductions in high personal tax levels; no such tax reductions possible without appearing to be budgeting for a bigger deficit; no enlarged deficits without financial market worries, higher interest rates and/or lower exchange rates, leading to lower investment, more inflation and declining confidence; therefore no steps possible to cut taxes. In practice a Conservative government has been able to snip away at the margin, easing substantially some of the more oppressive tax burdens on capital accumulation and business investment. The tax conditions for new business growth are undoubtedly much less unattractive than they were.

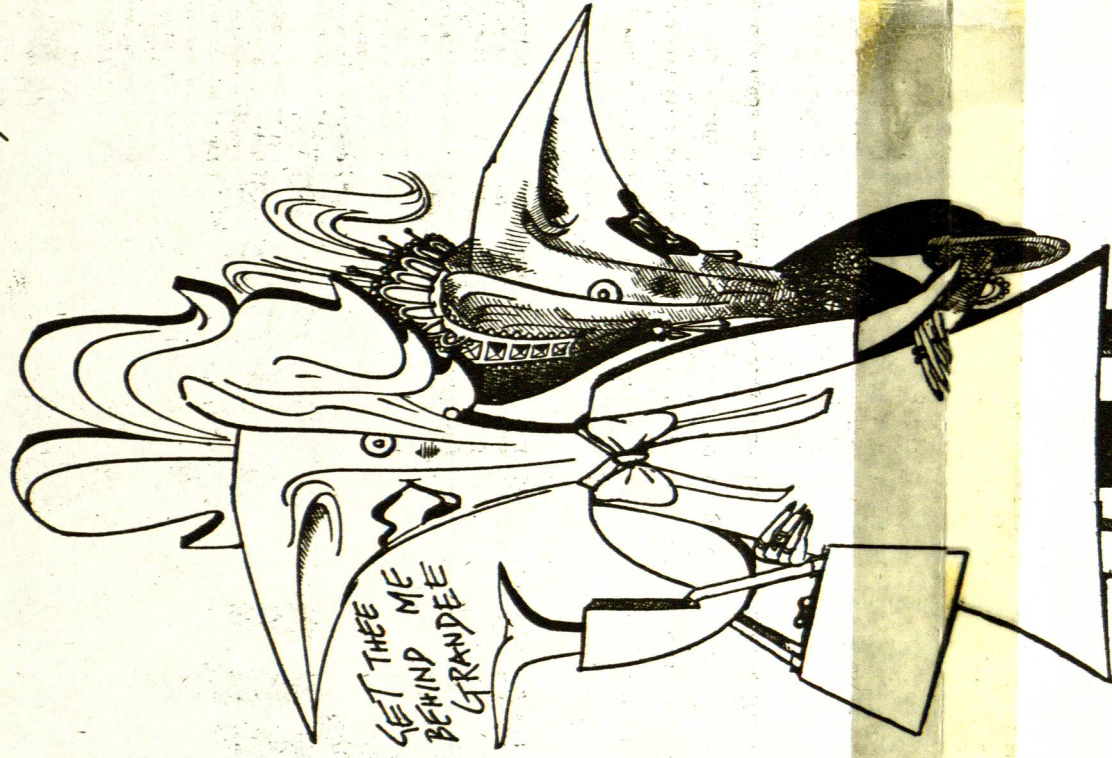
But at the bottom end of the income scale taxation bites at a lower point than in any other OECD country. National insurance contributions, while putting the marginal rate much higher, slightly alters the relative position vis-à-vis other countries. But nothing can disguise the fact that from the point of view of the individual earner we remain a nation of very high taxation and very low incentive.

There is a further sense in which policy appears to be "stuck". The essence of the ideal of the property-owning democracy is that it should provide a much more favourable climate for the small man, for new business entrants and for the much less centralised, more diffuse pattern of ownership and enterprise which an alert and flexible economy demands.

But quite aside from the point that denationalisation has on the whole been disappointingly slow, there is another serious deficiency in the whole approach which remains unacknowledged. What is sauce for the state goose should also be sauce for the private sector gander. Monopoly and fossilising concentrations of control and ownership are just as hostile to the democracy of widespread property ownership, whether they are found in state or private hands. A policy which seeks to break up public monopolies but which leaves the private industrial, commercial and general business establishment with a high protective fence round it against invasion by new entrants is not a whole policy in any sense.

Nowhere is the deficiency more vividly illustrated than in the vast agricultural industry. Here we have a pattern under which the small man sees the whole trend against him and in favour of the largest enterprises. The domination of the British economy by the large financial institutions (pension funds and insurance companies) - not least in agriculture - is another feature of the old pattern which seems overdue for attention.

There is a real danger that the Conservative Party, having spent much effort in establishing its claim to the common, bourgeois ground of society, could still slip back into being again a grandees' party, by the



THE BOURGEOIS  
TORY IMAGE

of balanced Conservative government, which will result in much political peril if failed, to bring more precision and selectivity into its efforts to cut back public-expenditure-generating activities - in other words to hit the right targets. By the "right" targets I mean the "big four" ballooning current-spending generators which work ceaselessly in the health, welfare, defence and education areas. Together with agricultural support, these are the big eaters of public funds and the areas where policy objectives (what are we really getting for it all?) have been least systematically and rigorously questioned.

By the wrong targets I mean primarily the tradition of public service itself, which has been attacked and denigrated by much ignorance and prejudice. Bureaucracy is of course the great enemy of the good public servant. When, therefore, he or she reads, or hears, that all public sector activity is parasitical, that all civil and public winners are tea-swilling wastrels, the act of fighting which the public service finds itself undermined. We do not need to make the public service worker a hero. But nor need

money supply become too accommodating, or interest rates. What is so odd is that almost no attempt has been made to distinguish between kinds of borrowing - i.e. as between capital and current needs. If it had been it seems clear that additional funds could have been raised without increasing monetary pressures, or the same funds acquired at lower pressures.

The political, as well as economic, penalties of this scatter-shot approach to public economy are very high. The cut into capital programmes sours both public and administrative support for the increasingly vital assault on current spending which has yet to come. The brunt falls on private industry, notably construction, with minus effects on tax revenues that substantially reduce the budgetary gains supposed to flow from the cuts in the first place. And in political terms people who understand full well the need to curb the voracious demands of welfare programmes, or industrial or agricultural support, or even the defence establishment, are rightly puzzled that public works are postponed.

Looking out from the perspective of the past 15 years of government in Britain, we are now just embarking on the third phase of the battle to reduce the relative size of public expenditure and give the government the "room for manoeuvre" and scope for big tax cuts it has so far been denied. I call this "the third assault", and it is one that must succeed.

The first phase began before, and continued into, the 1970-74 period with the intensifying of efforts to question and control swelling programmes by better management of government. Phase two began after 1976 but was fully developed after 1979 and put cash control at the centre.

The outcome has been to reduce government deficits and therefore borrowing needs and pressure on the monetary aggregates, in so far as they can be defined and measured. It has been done, has had to be done, by maintaining tax revenues at record high rates, which in turn has been done not by drawing revenues off an expanding tax base but by keeping (and in some cases increasing) the existing sky-high tax rates.

I believe the third phase, or assault, will have to employ less crude, unselective and mechanically rigid methods against public spending if it is to succeed where earlier attempts have failed. This will mean recognising:

(a) That the links between public spending and borrowing and the monetary aggregates and inflation are a good deal less direct and more flexible and capable of manipulation than has been accepted so far.

(b) That the links on the other side of the budgetary equation between tax rates imposed and actual revenues raised are not as mathematical and predictable as hitherto held.

(c) That in curbing spending programmes both blades of the scissors are needed. Across-the-board cuts have a habit of being eroded. The cash and manpower hand-brush squeezes have to go hand-in-hand with the systematic questioning of functions and objectives which was initiated in 1970 but which lost momentum during the decade.

(d) That if objectives are to be questioned and functions cut out, so that the percentage of GDP taken by public spending can fall, on the narrowest definitions, down from the astronomical 40-50 per cent range to something in the 30-40 per cent bracket, deep issues of policy will have to be reopened and areas hitherto sacred and untouchable tackled.

If these points are acknowledged then there is a good chance that the crucial "room for manoeuvre" will emerge and the positive aspects of what the government is trying to achieve will be understood. What would be a thousand pities would be to see the government hurt itself against a public-expenditure brick wall, in a welter of ineffective cuts and with sustained high tax burdens. The Charge of the Light Brigade made excellent copy but it was not war.

● A fuller version of this article appears in the October issue of *The Political Quarterly*, 10 Elm St., London WC1.

he or she be so constantly stereotyped as a villain. The public services are too vital and basic a part of the modern free-enterprise economy to permit that kind of two-dimensional approach.

The other "wrong" target is indeed the economic infrastructure itself. Why have we had to live with a shrinking proportion of government spending going into fixed capital when one might have expected the whole thrust of Conservative policy to be pushing the other way? The orthodox answer is that if capital projects cannot be financed privately, as with roads, then they have to take their luck along with all other government spending within the total available. Until and unless current spending growth is constrained it is capital which catches the cuts, regrettable though that is.

We can go with this up to a point. The borrowing requirement does influence the monetary aggregates, although not nearly as directly and mechanically as Whitehall and the financial markets have talked themselves into imagining. And this in due course does have some effect on either inflation, through letting