

cc BT (for background only. I am preparing some usable Q & A.)
AF 17/10



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 October 1983

A Turnbull Esq.
10 Downing Street
LONDON
SW1

Dear Andrew,

LTPE

You asked if we could send you some briefing on the present long term public expenditure debate, especially the study produced by the IFS and the argument being deployed by the Lord Privy Seal and the Northern Ireland Secretary.

I am attaching to this three internal papers which we have prepared here, which, although based specifically on the IFS, should also provide material for the rest of the debate. You should know that, although two of the papers are headed "Channel Four Programme", this related to a bid for a programme tonight which the Chancellor has turned down - there is at present no question of this material being deployed on Channel four or anywhere else.

*Yours,
JCS*

MISS J C SIMPSON
Private Secretary

CONFIDENTIAL

FROM: F CASSELL

13 October 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir Terence Burns
Mr Bailey
Mr Byatt
Mr Battishill
Mr Evans
Mr Hall
Mr Scholar
Mr Allen
Mr Stannard
Mr Aaronson
Mr Hacche
Mr Folger
Mr Ridley
Mr Lord
Dr Rouse

IFS: CHANNEL FOUR PROGRAMME

The notes below by Mr Aaronson and Mr Scholar explain what we have been able to identify as the main differences between the IFS projections and those earlier done by the Treasury.

This technical material is hardly the stuff of television debate. However, there are four main points that might be distilled from it for public presentation. These I would say are:

- i. I do not know precisely how IFS arrived at their numbers, and so detailed comparison between the two sets of projections is not possible. But in any case it would not serve much purpose. The Treasury exercise was not attempting to forecast the level of public expenditure in 1990, still less the PSBR in that year - no-one in their right mind would attempt that. It was concerned with broad trends. The aim

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was to explore the implications of current expenditure and tax policies given the inevitable uncertainty about how the economy might develop. The trend growth rate of the economy in the very long term has been about $1\frac{1}{2}$ per cent a year. In the post-war period we have achieved around $2\frac{1}{4}$ per cent on average, but the rate in the last decade was a good deal less than this. So one scenario assumed growth significantly above the long-term trend. The other illustrated the implications of economic growth substantially below that trend rate. Including a low growth scenario did not imply lack of faith in the Government's economic policies. It was a matter of prudent planning - to avoid the mistake of previous Governments in basing their expenditure plans on over-optimistic assumptions about future growth.

[It is better to talk in terms of ratios. IFS have a substantially lower planning total for 1990 than we have, but also a lower GDP. So the ratio - which is relevant to the tax burden - is not so different.]

ii. There is a host of differences between the two projections of public expenditure. But if one takes the $2\frac{1}{2}$ per cent growth case the difference between the two estimates of the ratio of public expenditure to GDP by the end of the decade is really not very great - and seems to be accounted for partly by the absence of a provision for contingencies in the IFS calculations. So the implications for the required level of taxation and borrowing in the two exercises are not significantly different.

iii. The larger difference [in this $2\frac{1}{2}$ per cent case] arises on the projections of revenues. The IFS shows substantially higher revenues from existing tax and contribution rates. There are particular difficulties in comparing these projections, since the IFS study starts from a later base than the Treasury study - which of course was done in 1982. It would seem however

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that the difference in the revenue projections arises not on taxes but on other components of the burden on the private sector - local authority rates and national insurance contributions. Both of these rise substantially faster in the IFS projections than in the Treasury projections. This seems to be because the IFS has assumed that they will grow in line with GDP whereas the Treasury assumed that they would finance an unchanged proportion of local authority expenditure and expenditure by the National Insurance Fund. The Treasury assumptions seem more in line with the way these expenditures are normally financed.

iv. Looking at the figures as objectively as one can the conclusion is inescapable that at existing tax rates there is likely to be a severe problem of financing public expenditure - "crisis" was not our word - unless the economy grows substantially faster than it has over the past 10 years. And, of course, lower taxes may be necessary if we are to get that sustained higher growth. Moreover, even if we could be sure of healthy growth, it would still make sense to consider in advance the pros and cons of reducing taxes compared with increasing expenditure. The enormous uncertainties of projections of this sort should need no stressing. But this very uncertainty makes the dogmatic assertions by the IFS the more remarkable. They conclude in their press release that "there is no difficulty in the foreseeable future in maintaining current [expenditure] policies at current tax rates". Given the uncertainties when looking that far ahead this seems an extraordinarily rash statement.



F CASSELL

CONFIDENTIAL

FROM: R H AARONSON
DATE: 12 OCTOBER 1983

- ✓ *JP.*
1. MR CASSELL
2. CHANCELLOR

cc: Chief Secretary
Financial Secretary
Economic Secretary
MST
Mr Middleton
Sir T Burns
Mr Bailey

Mr Hall.

Mr Byatt
Mr Battishill
Mr H Evans
Mr Scholar
Mr Allen
Mr Stannard
Mr Hacche
*Mr Folger
Mr Ridley
Mr Lord
Dr Rouse
Mr Duff*

IFS: CHANNEL FOUR PROGRAMME

I attach some further briefing on the Institute for Fiscal Studies (IFS) projections of expenditure and revenue in the long-term. This covers tax revenue (as well as some general points). Mr Scholar's minute (attached) covers expenditure.

R. H. Aaronson

R H AARONSON

IFS: CHANNEL FOUR PROGRAMME

Following their press release last week on long-term expenditure and revenue prospects the IFS will participate in Channel 4's "A week in politics" on Friday. They can be expected to press their case that our LTPE projections were too pessimistic and that there is no real public expenditure problem over the foreseeable future.

2. Points to make in reacting to the programme fall into three main categories: the nature of the LTPE exercise, the detail of the IFS's projections as compared with ours and the conclusions to be drawn from the figures.

The nature of the LTPE exercise

No-one in their right mind would attempt that.

3. LTPE was not an attempt to forecast the PSBR in 1990. The aim was to explore the implications of current expenditure and tax policies given our inevitable uncertainty about how the economy might develop. One scenario assumed very slow growth ($\frac{1}{2}$ - $\frac{3}{4}$ % a year), the other a faster rate ($2\frac{1}{2}$ %).

4. Including a low-growth scenario did not imply lack of faith in the Government's economic policies. It was merely a matter of prudent planning. We wanted to avoid the mistake of most previous Governments in basing their expenditure plans on too optimistic assumptions about growth. Economic growth is very hard to predict. For example, if anyone had suggested in 1973 that growth for the next seven years would average $\frac{3}{4}$ % a year he would have seemed absurdly pessimistic. But that was the growth rate which ensued.

The detail of the projections

5. It is difficult to pin down the exact source of disagreement between the IFS and LTPE. We have only some rough notes ("leaked") on their calculations. A further problem is that the LTPE calculations were carried out in spring 1982. Thus tax revenues were projected forward taking the 1982-3 regime as a

base. The IFS start in 1983-4 - after the 1983 Budget tax cuts. In practice, this may not make much difference: an updating of the LTPE exercise carried out this summer did not suggest a very different outcome in 1990 from the original exercise.

6. The IFS have three scenarios, two very similar to the LTPE ones plus an intermediate case. For the two where comparison is possible ~~the~~ revenue, expenditure and the PSBR are as follows:-

	LTPE 'A' (2½% growth)		LTPE 'B' (½/¼%)		% GDP in 1990-91
	IFS	Treasury	IFS	Treasury	
Expenditure (planning total)	36.3	36.9	40.6	43.8	
Tax revenue	38.5	37.2	39.1	39.7	
Debt interest, etc ⁽¹⁾	1.3	1.6 ⁽²⁾	1.8	2.2 ⁽²⁾	
PSBR	-1.1	1.3	3.1	6.3	

(1) Incorporates adjustments to get to PSBR

(2) Not explicit in LTPE paper. Based on LTPE assumptions about debt interest, LA VAT and capital consumption, plus 1983-4 ratios for other elements.

7. On the higher growth Scenario A the largest source of difference is on ~~tax~~ revenue. The IFS see higher revenue from income tax (making allowance for the effects of the 1983 Budget), apparently because they do not allow for a fall in the share of GDP represented by wages, as we do. Expenditure taxes are also higher, because they assume an income elasticity of one for the goods which bear tax. Our evidence is that the overall elasticity is about 0.9 (1.1 for VAT and 0.77 for specific duties, which bring in more revenue than VAT). This is a point ~~at~~ which the IFS method looks less sophisticated than ours.

8. Against this, IFS have less than us for corporation tax and North Sea taxes. This more or less cancels out the differences on income tax and expenditure taxes. (See Annex A)

9. The remaining discrepancy is on local authority rates and NICs. It amounts to some 2% of GDP. Essentially this is a disagreement on what is unchanged policy. IFS assume that the NIC rate is unchanged and that LA rates grow in line with GDP. We assumed that these two ~~taxes~~^{items} would finance an unchanged proportion of the corresponding expenditure. Since LA expenditure and NI benefits are expected to grow more slowly than GDP the LA rates and NICs do so as well. Some reduction in the burden of tax^{es and contributions} is therefore implicit in our calculation. But if the priority is to cut income tax it might be difficult to "raid" the savings on LA rates and NICs by cutting the rate support grant and the Treasury supplement - which is what is implicit in the IFS method. So the LTPE calculation does not necessarily imply tax cuts of the sort we are aiming at.

10. There is also a significant discrepancy in the line for debt interest and other adjustments. These are almost impossible to forecast and the discrepancy here underlines the uncertainties of the whole exercise.

11. On the low-growth Scenario B the IFS actually show less ~~the~~ revenue (as a share of GDP) than us. Making allowance for the 1983 Budget, the two totals are more or less identical (though not individual components). The real discrepancies are on the expenditure side (and, as above, on debt interest and other adjustments). Expenditure is covered in a separate note from GE. Housing is the main area where LTPE showed more expenditure than the IFS. The latter also omit a contingency reserve.

Conclusions to be drawn from the figures

12. Any forecast of expenditure and revenue seven or eight years ahead is almost certain to be proved wrong. That is why we did not attempt a forecast but looked at the implications of both optimistic and pessimistic assumptions about the economy. This exercise suggested that a severe problem ("crisis" was not our word) of financing existing public expenditure plans was within the bounds of possibility. Since that possibility exists it surely makes sense to bear it in mind - as one possibility - in taking decisions about expenditure now. Otherwise decisions may be taken which limit future room for manoeuvre. Moreover, even if we could be sure of healthy GDP growth it would still make sense to consider in advance the pros and cons of increased expenditure compared with reduced taxes.

13. The IFS approach, by contrast, is dogmatic. They conclude in their Press Release that "there is no difficulty in the foreseeable future in maintaining current [expenditure] policies at current tax rates". In view of the margins of error when looking so far ahead this is an extremely rash statement. To claim this degree of certainty is an uncharacteristic lapse from the Institute's usual high standards. Other forecasters have already published contrary views (Simon and Coates).

14. Furthermore, it is not clear that the IFS have asked the right question. Sticking to existing tax rates is not our objective. We want to see taxes and expenditure taking up a smaller share of national income. Indeed it is quite possible that we will not get the growth assumed in the more optimistic scenario without reducing tax rates to improve incentives and reduce burdens on industry.

14. These are vital issues to the future development of our society. It is important to face and consider them and not to get bogged down in a sterile debate about the numbers.

ANNEX A

1990-91 : Taxes as a percentage of GDP

	LTPE Case A		LTPE Case B	
	(2½% growth)		(½/¾% growth)	
	IFS	Treasury	IFS	Treasury
Income tax	10.8	10.9	10.7	12.0
Corporation tax	1.9	2.1	1.9	1.5
North Sea taxes	1.9	2.3	2.2	2.7
NIC	7.1	6.3	7.1	7.1
NIS	0.7	1.0	0.7	1.1
VAT*	4.9	4.5	5.1	4.3
LA Rates	4.5	3.2	4.5	3.7
Duties, etc	6.4	6.6	6.6	6.8
Capital Taxes†	0.4	0.4	0.4	0.4
TOTAL	38.5	37.2	39.1	39.7

* Not strictly comparable as Treasury figures exclude VAT on dutiable commodities

† Coverage may be different

FROM: M C SCHOLAR
DATE: 12 October 1983

MR CASSELL

cc Mr Kitcatt
Mr Pestell
Mr Watson
Mr Pearce
Mr Hart
Mr Stannard

IFS: PUBLIC EXPENDITURE CRISIS

Mr Bailey asked GEP to feed in comments on the IFS expenditure assumptions, particularly on defence, housing, health and public service pay, as compared with those in last year's LTPE.

2. On defence, IFS have, like LTPE, assumed broadly 3 per cent per annum real growth up to 1988-89 and 1 per cent thereafter. But, whereas LTPE started from 1982-83, they start from a 1983-84 base which is, Falklands - inclusive - ie some £620 million too high, since UK policy is to provide for the 3% growth on a Falklands-exclusive basis. (Still higher defence outcomes are, of course, imaginable, given that the NATO 3% target extends now to 1990-91.) The LTPE report did not assume - as IFS have alleged - an annual real growth rate of 5 per cent. Alternative assumptions were, however, made on non-pay relative price effects - a nil non-pay RPE and a 2 per cent non-pay RPE (in line with MOD's PES bids at the time).

3. On housing, IFS assume that expenditure will grow in line with GDP. This accords with the LTPE high-growth case, but not with the low-growth case, which assumed expenditure in 1990-91 back to around its 1979-80 level - ie an almost doubled GDP share - because of higher interest rates, lower public sector sales, and a (perhaps arguable) switch from private to public provision.

4. On health, the IFS and LTPE assumptions are broadly consistent: they assume 2% growth per annum in cost terms on each scenario; we assumed 1.8% and 2.3% per annum for the lower growth and higher growth cases respectively.

5. IFS criticise as too low the LTPE assumptions of an average annual real growth in public service pay of $\frac{1}{4}$ - $\frac{1}{2}$ %. But this average concealed an assumption of negative relative pay adjustments in the public services in 1981-82 and 1982-83, and

of an average real growth rate after 1983-84 of some 1¼% per annum, ie in line with the assumed growth in market sector pay after 1983-84. We can make tactical use of IFS criticism to counter their suggestion that LTPE generally overstated expenditure. But we will need to be careful about the implications for civil service pay negotiations of anything we say in this area.

6. On social security, IFS appear to have assumed price-indexation, on the basis of a continuation of present policy. LTPE, on the other hand, assumed in the high growth case that it would be unrealistic to have a steadily opening gap between the living standards of social security beneficiaries and the rest of the population, and so built in an annual 1% growth rate.

7. Some further points:

(i) IFS have no contingency reserve; LTPE earmarked a constant proportion of the total for this throughout.

(ii) IFS show asset sales some £½ billion higher than LTPE.

(iii) IFS assume non-education local authority expenditure growing in line with GDP; the LTPE projection was a little higher than this.

8. Finally, the basis for the IFS ratios of public expenditure to GDP is not directly comparable with that in the Public Expenditure White Paper. The broad coincidence between the LTPE and IFS ratios is, thus, coincidental: in fact there is a £6 billion difference between the planning totals produced by the two studies.

MCS

M C SCHOLAR

Challenge from Tory moderates — and a clampdown on extremists

I will fight savage cuts, warns Biffen

A CABINET battle broke into the open yesterday when one of Mrs Thatcher's key Ministers said he would not be part of an 'economic crusade' against public spending to pay for tax cuts.

The rebel flag was hoisted by John Biffen, the leader of the Commons, in a way which suggests that Chancellor Nigel Lawson has a much bigger fight on his hands than anyone anticipated in squeezing Whitehall's budget.

Mr Biffen, one of the party's great pragmatists, has now effectively lined himself up alongside

By Political Editor

Defence Secretary Michael Heseltine, Norman Fowler of Social Services, Patrick Jenkin Environment, and other Ministers who are vigorously fighting Treasury attempts to lop £2,500 million from next year's figures.

In a remarkably frank interview on London Weekend's Weekend World, Mr Biffen insisted: 'I don't believe there is scope for savage reductions.'

Mr Biffen suggested that the present 'Steady as we go' strategy was a better answer than the 'radical' ideas of the Chancellor in 'axing chunks off the Welfare State, or others who wanted to spend their way out of trouble.'

He claimed that the Government had a 'responsible attitude' to its Welfare State spending programmes. While tax cuts might

be a priority 'I am one of those who believes that our responsibility in the war against inflation and borrowing stands equally if not greater.'

Mr Biffen's words totally cut across a declaration by Chancellor Lawson yesterday in a newspaper interview that he is determined to squeeze public spending remorselessly, saying: 'Our priority must still be to cut income tax.'

Suspicion

Another warning shot across the Government's bows came from Francis Pym, who was sacked by Mrs Thatcher as Foreign Secretary in June. He said fundamental changes had to be made in facing unemployment—'by far the greatest domestic single issue' confronting the country.

In a major address at Cambridge, Mr Pym suggested that the Government has got to start thinking now about work-sharing

schemes, because unemployment was likely to go up rather than down as a result of the robot age.

In what some saw as a dig at Mrs Thatcher, he said: 'I know that there is grave suspicion within the Government of anything that sounds like economic interference or social planning, and with good reason.'

'But some things are of too overwhelming and pervasive importance to be left to the natural ebb and flow of life. This is one of them.'

Mrs Thatcher was last night accused by Mr Enoch Powell of behaving too stridently over her election victory.

The Ulster Unionist MP said on Channel Four's Face the Press that he was 'anxious about the effect of the success of the General Election and the manner in which she has coped with it. I would wish that the Prime Minister had been able to digest her victory with more relaxation and greater magnanimity.'



Mr Finnegan: Embarrassment

Checks over 'infiltration' by moles of the Right

By STUART COLLIER

TORY officials yesterday announced a clampdown to prevent infiltration of the party by extreme Right-Wing organisations.

Selection procedures for candidates are being tightened up, to make sure contenders are specifically asked if they have been a member of another

THE GUARDIAN

Printed in London and Manchester

Monday October 10 1983 23p

'Victory' conference marred by Biffen and Pym attacks, far-right moles and the Parkinson affair

Tory disarray as blows rain on Thatcher

Ministers and Conservative MPs head for their party conference at Blackpool amid growing signs of considerable political disarray. Mrs Thatcher was dealt two further blows yesterday which add to the existing embarrassments and difficulties which are threatening what had been billed as the post-election victory conference, writes Julia Langdon.

A leading member of the Cabinet, Mr John Biffen, expressed public doubt about the Government's ability to cut taxes, and made plain his view that public spending could not be cut much more.

A study by the Young Conservatives after the June election revealed signs of right-wing extremists infiltrating the party.

The irony in the comparison with the Labour Party was compounded by Labour's impressive new standing in the opinion polls in the wake of its most successful party conference in a decade. Under its new leader, Mr Neil Kinnock, Labour is now only three points behind the Conservatives.

The prospects for the conference have in any case been eclipsed with the extent of public interest in the private life of Mrs Thatcher's principal lieutenant, the Trade and Industry Secretary, Mr Cecil Parkinson.

Labour's poll jubilation, back page; Health axe falls on hard-pressed town, page 4; Why welfare is not such a tax, Peter Jenkins, page 21; Leader comment, page 12



Biffen warns of new cuts folly

Guardian
Nov 10 Oct
1983

By Julia Langdon,
Political Correspondent

Mr John Biffen, the Leader of the Commons, yesterday signalled a warning to his Cabinet colleagues in the Treasury that a savage programme of further spending cuts would not be acceptable, either in electoral or political terms.

Shortly after the warning a former Cabinet minister, Mr Francis Pym, who is now on the back benches gave his own encoded message of his continuing opposition to the Government's economic policy.

As the Treasury ministers limber up for the final round of confrontation with the spending departments in this year's public expenditure exercise, Mr Biffen said in a television interview that the British public did not "relish the thought of being involved in an economic crusade."

He said during a Weekend World television interview yesterday that the government should steer a "responsible" course.

It would be difficult for the



Mr John Biffen: "no scope for savage cuts"

Treasury to introduce tax cuts, which had been promised, but the Government's existing commitments would make it very difficult to trim public spending much further, he added.

"I don't think that anybody looking at the pattern of public spending can believe that there is scope for very savage reductions in the totality," he said.

Mr Biffen, a former Chief Secretary to the Treasury, also recalled the Tory party's well-established tradition of the protective role of the state. This was consistent with Tory traditions, with realism and with a sense of responsibility, he said.

But the Chancellor, Mr Nigel Lawson, used a Sunday Express article to signal the Government's determination to stick to its policies. He argued that the present level of taxation was a barrier to reducing unemployment.

One Treasury source suggested, however, that there were still some unpalatable public spending cuts in next month's economic statement.

The areas on which the cuts — "reductions in planned increases" in Government parlance — will concentrate are housing, social security, agriculture and defence. Mr Michael Heseltine's fight for the defence budget has already been singled out as one of the most interesting spectacles for the autumn.

But the annual clash between the main spending departments and the Chief Secretary, Mr Peter Rees, is now not expected to produce the bitterness of past years. The difference between the planned savings and those

Turn to back page, col. 5

Biffen warns against folly of new cuts in public spending

Continued from page one

agreed by ministers could be met from the contingency reserves and that there were, in any case, some useful pointers of a better time ahead which might placate the Treasury.

In his speech Mr Pym, the former foreign secretary, sacked by Mrs Thatcher, told Cambridge University Conservatives that there was a fallacy that full employment could be restored when the economy improved.

He said that it was perfectly possible that unemployment would continue to rise unless the Government took action to draw the potential benefit from the technological revolution in industry.

"I am not being a prophet of doom," Mr Pym declared in order to head off the possibility that his view would be considered characteristically gloomy. "These changes represent one of the great human opportunities of history—provided that they are properly anticipated and provided that they are handled with imagination, foresight and sensitivity."

Mr Pym is known to have lost patience with the Government's economic policies at least a year before he lost office and his advocacy of a new approach will not come as music to Mrs Thatcher's ears.

But his carefully chosen timing, on the eve of next week's party conference underlines his determination to get his mes-

sage received and understood within the party.

He described unemployment as the greatest single domestic issue with which the Government was faced and in a key passage said that even if a sustained economic recovery were achieved, Britain would still be left with an unemployment problem of "enormous dimensions" unless different action was planned now.

● The Government's "patchwork" social policy comes under strong attack — in a paper published today by the influential right-of-centre Conservative Bow Group.

The paper calls for radical Government decisions about the future of the welfare state.

Times
Row
10 Oct 1983

Cabinet divided on tax reductions

By Our Political Editor

Differences among senior members of the Cabinet about the scope for cuts in taxation and the necessary levels of public expenditure over the lifetime of the present Parliament were highlighted yesterday.

Mr Nigel Lawson, Chancellor of the Exchequer, writing in the *Sunday Express*, described the present burden of taxation in Britain as one of the most important barriers to enterprise and employment.

During the Conservatives' first term of office, he wrote, they had received some of the most absurd disincentives to hard work. But bringing down the massive level of government borrowing bequeathed by Labour had to take priority, and the overall level of taxation had yet to be reduced.

Mr Lawson, whose deputy, Mr Peter Rees, is engaged on a so far unsuccessful exercise to reduce next years' prospective level of public expenditure by some £2,500m, said that if government continued to provide the service and benefits it did at present, state spending would be likely to rise even higher in relation to the size of the economy.

That would mean higher taxes unless the economy was to grow very rapidly indeed. But the best chance of faster growth was to reduce taxation.

Mr Lawson said they needed to look carefully at government spending programmes to see if they could afford all they were providing, "or whether in some cases increasing demands can-

not be better met from the private sector".

To release incentive and enterprise, to secure more jobs, meant holding taxes down. "If we are not to betray the hopes of those now out of work, we must do still better on taxes over the next five years."

Mr John Biffen, Leader of the House of Commons, appeared when interviewed on *London Weekend Television's Weekend World* to have different priorities when he observed that the Conservative election manifesto "was not studded with commitments to reduce taxation".

Mr Biffen said that tax cuts were a laudable objective for Conservatives, but added: "The Tory Party has a very well established tradition of the protective role of the state, and that very often means an expensive role for the state."

Tax cuts had a priority "to be set alongside other responsibilities", he said.

Speaking to Conservatives in Cambridge last night, Mr Francis Pym, the former Foreign Secretary, said that the changing patterns of employment with earlier retirement would make pensions more costly and require a significant growth in government expenditure on the social services.

Fewer people would be paying tax, so each would be paying more tax. Economic growth would be essential to make that possible without increasing levels of taxation.

Leading article, page 15

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The Times
November 11
1983

Biffen warns against social service cuts

BY JOHN HUNT

MR JOHN BIFFEN, leader of the House of Commons and former Chief Secretary to the Treasury, yesterday threw his weight behind the group of ministers who are arguing against large-scale cuts in their departmental spending for next year.

He warned against big social service cuts and pointed out that the electorate would take its revenge on any party which made deep inroads into the Welfare State.

Mr Biffen also made it clear that he is extremely sceptical about the possibility of the Government achieving significant reductions in taxation before the next election.

Meanwhile, other issues continued to bedevil the party on the eve of its annual conference in Blackpool.

Criticism of Mr Cecil Parkinson, Trade and Industry Secretary, was still rife among Tory backbenchers who believe he should resign over the affair with his secretary. Many Tory MPs do not rule out the possibility that Mr Parkinson may give way to his critics and resign in spite of Mrs Thatcher's support.

However, last night a Downing Street statement said: "The

question of resignation does not arise."

Yesterday Mr John Selwyn Gummer, the new party chairman, was called to Chequers to discuss the situation with the Prime Minister.

Mr Gummer also announced tighter control of the selection of Tory candidates following a report from the Young Conservatives that "fascist" elements were infiltrating the party.

Mr Francis Pym, the former Foreign Secretary, criticised government policy in a long speech at Cambridge. He warned that unemployment is the biggest issue facing the Government and that it would continue to rise even if there is a sustained economic recovery.

Mr Biffen, interviewed on London Weekend Television's Weekend World by Mr Brian Walden, said that the scope for large scale reductions in public spending was extremely limited. He was particularly dubious about the chances of cutting the defence budget.

His remarks highlight the intensity of the Cabinet row over proposed cuts in next year's expenditure. Mr Biffen has thrown his considerable influence behind the three ministers who are fighting the cuts—

Mr Norman Fowler, Social Services Secretary, Mr Patrick Jenkin, Environment, and Mr Michael Heseltine, Defence.

Mr Biffen's views are opposed to those of the Prime Minister who still insists that reductions in income tax must be the priority for economic policy during this Government's lifetime. Mr Nigel Lawson, the Chancellor, made it clear in a weekend newspaper article that he shares her belief.

It will cause further confusion for MPs and the rank and file who are complaining that there seems to be lack of direction from the top since the Government's landslide victory in the general election.

Mr Biffen warned that tax cuts could not be purchased by "irresponsible treatment of public spending and of government borrowing."

The whole issue of cuts will run through the fringe debates at the Tory conference. The Treasury is still well short of the £2,500m reduction it needs in next year's spending if the target ceiling of £126.4bn is to be maintained.

Political package, Page 5
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Treasury to call for more cuts, Back Page

WORSHIPS TO GUARD OIL LINK

HARD BEESTON in Washington
ed States was said yesterday to rried about a possible serious Western oil supplies through the lff caused by France's provision er Etendard warplanes to Iraq. told America that it intends to use capable of firing Exocet missiles, "to ad" its three-year war with Iran, the Post reported. The decision was transmitted to Washington "in clear and forceful terms."

MA Page One Woo, Chief President of atic Justice e, Vice Agri- ee Kae-Chul, retary to the mic Affairs; Burma; Kim Presidential Dong-Shoen as Economic

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Biffen 'wet' over more spending cuts

By Our Political Staff
MR. JOHN BIFFEN, Leader of the Commons, yesterday made clear his firm opposition to the Government embarking on an economic policy in which taxes would be cut by savings on public spending.

He said the British people did not relish the thought of being involved in "an economic crusade."

His remarks, made on ITV's "Weekend World," appear to be a shot across the bow of Cabinet "hawks," led by Mr Lawson, the Chancellor, who hope that by slashing public spending they can make room for tax cuts over the next few years.

Mr Biffen, who has impeccable credentials as an economic "dry," said: "I don't think anybody looking at the pattern of public spending can believe that there is scope for a very savage reduction in the totality."

But other Ministers believe that by steadily reducing public spending provision can be made for tax cuts, later in the life of this Government.

Risking unpopularity
Mr Lawson is accused by some of his opponents within the Government of wielding the Treasury axe too readily. They believe his £500 million spending cuts imposed in the summer were unnecessary.

And they feel the Government is courting political unpopularity if it tries to cut taxes at some point in the future while paying the political penalty of cutting services now, particularly in areas such as the Health Service.

Mr Biffen emphasised that spending on the Health Service had increased in real terms in the last Parliament and said that he believed, the same would be true in the next.

"Although tax cuts are a very laudable objective for Conservatives, the Tory party has a very well established tradition of the protective role of the State, and that in contemporary erms often means an expensive role for the State," he said.

Different priorities
Mr Biffen stressed that there was "no great scope" for tax cuts because of the substantial commitments the Government had to defence, welfare benefits, pensions and the NHS.

Asked what priority should be given to tax cuts, he replied: "It is a priority to be set alongside other responsibilities."

"I am one of those who believe that responsibility on the war against inflation and Government borrowing come certainly fully equal if not greater."

The crucial Cabinet discussions on public spending for the coming year will come to Cabinet later this month. The major disputes are expected to come over spending by the Department of Health and Social Security.

The Treasury is seeking savings in areas such as the automatic index linking of unemployment benefit with

PYM By GRAHAM PATERSON Continued from Page One

unemployment had to be completely rethought.
He said: "If you think about it as 'unemployment at 50 per cent.' it is a problem of huge proportions. If you think of it as 'the working week is halved' it is an opportunity of huge proportions."

Working life could be redistributed, he argued, by a reduction in the working day, by a reduction in the working week, longer holidays, earlier retirement or a combination of all those things.

The political significance of Mr Pym's speech is that he is voicing publicly the criticisms that have been made privately by some Tory MPs throughout the summer—that since the election victory the Government has appeared to be directionless and lacking in ideas.

Combined with its newfound accident proneness, over the health cuts, the public spending review, and Mr Parkinson, a new set of battle lines over policy are being drawn up in time for the conference.

New division

Instead of the "wet v dry" splits of previous years, a division is emerging between those Tories who want the Government to press on exactly as it has done, concentrating on controlling public spending and cutting inflation, and those who argue that the party must be more imaginative and far-sighted in its approach.

Mr Pym has put himself firmly in the latter camp. There will be greater demands on housing, education, pensions and social services, he argued, which will grow costlier as the population ages and the amount of work declines.

—Until now, he claimed, there has been "a conspiracy of silence" on the topic of huge long-term rises in the level of unemployment.

The Government, he stated, should have a concerted strategy on the matter.

"Too important"

He added: "I know that there is a grave suspicion within the Government of anything that sounds like economic interference or social planning, and with good reason."
"But some things are of too overwhelming and pervasive importance to be left to the natural ebb and flow of life. This is one of them."

The Government is bound to feel that Mr Pym's choice of example of an increase in the level of unemployment to 50 per cent. by the end of this century is unhelpful.

The Government's opponents are certain to seize upon the figure in attacking its policies over the coming months.

PARKINSON

By JAMES WIGHTMAN
Continued from Page One
arrive in Blackpool this evening, shortly before Mr Parkinson gives a BBC Panorama interview arranged before he revealed his affair last week.

Last night the BBC expected that he would go ahead with the interview. There will be no questions about his affair.

HILL LEC VA PF
 LONDON-BIRMINGHAM
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DEATHS (Continued)

HILL.—On Oct. 7, peacefully at home, 10, Helmet Road, Birston, Shropshire, Mr. Rev. CARTRWY HILL, lately R. of Holy Trinity Church, Shropshire, dearly loved by wife, Mrs. Hilary Hill, aged 86 years. Burial service on Oct. 15, at Holy Trinity Church, Shropshire. Inquiries to Mrs. Hilary Hill, 10, Helmet Road, Birston, Shropshire. Donations if desired may be sent to the Curie Foundation and Compton House, Wolverhampton. Inquiries to Mrs. Hilary Hill, 10, Helmet Road, Birston, Shropshire. Burial service on Oct. 15, at Holy Trinity Church, Shropshire. Inquiries to Mrs. Hilary Hill, 10, Helmet Road, Birston, Shropshire. Donations if desired may be sent to the Curie Foundation and Compton House, Wolverhampton. Inquiries to Mrs. Hilary Hill, 10, Helmet Road, Birston, Shropshire.

HUGGINS.—On Oct. 7, 1983, aged 90, Mrs. M. C. Huggins, of 22, Woodside Court, Birston, Shropshire. Burial service on Oct. 11, at Holy Trinity Church, Shropshire. Inquiries to Mrs. M. C. Huggins, 22, Woodside Court, Birston, Shropshire.

JENKINS.—On Oct. 8, 1983, aged 86 years, Mr. Talbot Terrace, 1 Sussex. Burial service on Oct. 12, at The Downs Crematorium, Brighton, at 3 p.m. No flowers but donations, if desired, may be sent to The League of Hospital Friends, 170 The Midland Bank, Lewes, Sussex. Inquiries to Mrs. M. C. Huggins, 22, Woodside Court, Birston, Shropshire.

KITCHEN.—On Oct. 4, peacefully, aged 90, Mrs. M. C. Kitchen, of 22, Woodside Court, Birston, Shropshire. Burial service on Oct. 11, at Holy Trinity Church, Shropshire. Inquiries to Mrs. M. C. Kitchen, 22, Woodside Court, Birston, Shropshire.

LAWRENCE.—On Oct. 6, Mrs. DOROTHY REBECCA LAWRENCE, aged 89 years. Member of the College of Nursing, of Park Blanford, daughter of the late R. F. Lawrence, Blandford. Burial service on Oct. 11, at Bournemouth on Friday, Oct. 11, at 11.30 a.m. No flowers please; gifts to the League of Friends, 10, Market Place, Blandford, Dorset.

LUKE.—On Oct. 6, peacefully, Mrs. CLARENCE, dearly loved wife of the late Mr. R. Luke, of Chapel, Golden Green, on Thursday, Oct. 13, at 2 p.m. Family flowers. Gifts to The Gideons, if desired. With the Lord.

MATHER.—On Oct. 7, 1983, aged 68 years, Mrs. DONALD MATHER, wife of the late Mr. Donald Mather, of Belle, of Meadowcroft, Lancashire. Burial service on Oct. 12, at R.A.F. Benevolent Fund, Ing Stafford Brothers, 030 521.

MILLER.—On Oct. 6, 1983, aged 85 years, Mrs. ROSE MILLS, wife of the late Mr. R. J. Mills, of 3.30 p.m. Inquiries to Free of Horsham, tel. 0403 5490. Burial service on Oct. 11, at 3.30 p.m.

MUNN.—On Oct. 7, peacefully at home in Twickenham, Mrs. MARGUERITE Munn, widow of the late Mr. John Munn, of 22, Woodside Court, Birston, Shropshire. Burial service on Oct. 11, at 3.30 p.m.

PARSONS.—On Oct. 4, 1983, peacefully at his home at Hythe, Kent, Mr. ARTHUR JOHN PARSONS, 10, Royal Leicestershire Regt (Retd), at Hythe Parish Church on Wednesday, Oct. 12, at 2 p.m., followed by cremation at Hawking Wood, Hythe, Dymchurch Road, Hythe. Inquiries to Mrs. M. C. Huggins, 22, Woodside Court, Birston, Shropshire.

QUELCH.—On Oct. 6, 1983, aged 79 years, Mrs. ALICE MADELINE QUELCH, of 264, Illey Road, Oxford. The remains will be received into Albans Church, Oxford, on Tuesday, Oct. 11, at 8 p.m. Requiem Mass will be said on Wednesday, Oct. 12, at 8 p.m., followed by cremation at Oxford. Flowers may be sent to Reeves & Sons, 288, Abingdon Rd., Oxford.

REEVES.—On Oct. 4, 1983, Mrs. GEORGE, at Felpham, Sussex, after prolonged illness, faced with courage and faith, dearly loved and sadly missed wife of the late Mr. George Reeves, former Manager of Ilford branch Commercial Union Assurance and Squadron Leader R.A.F. Bomber Command. Mentions in Despatches, S.F.C.O. Scampston. President Insurance Institute, Ilford. Burial service on Oct. 12, at 2 p.m. at the Chichester Crematorium, Tuesday, Oct. 11, at 2 p.m. Flowers from 3 lives and close friends to Reynolds Funeral Director, 27-31, High Street, Bognor Regis, tel. 864745.

SCAMMELL.—On Oct. 4, 1983, Mrs. BESSIE SCAMMELL, beloved wife of the late Mr. George Scammell, and mother of Margaret, Ruth and late Stephen and Esther. Burial service at Edmond Chapel, Church Street, Eastbourne, Sussex, on Thursday, Oct. 13, at 2 p.m., followed by interment at Ockley Cemetery. Family flowers only. Inquiries to Haine & Son, 10, South Street, Eastbourne (tel. 278).

Police kid Irish sec

By ALAN C
A SERIOUS lapse in
day as invest
kidnapping of two Irish
the weekend.
It is thought the two police
men, seized by a lake
three miles outside

Public spending file

WEEKEND WORLD

SUNDAY 9th OCTOBER 1983

Public Spending.

How deep the cuts?

INTERVIEW : JOHN BIFFEN MP

LEADER HOUSE OF COMMONS.

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Hello and good afternoon.

Mrs Thatcher's government now appears increasingly divided as it grapples with the problem of how to deal with what is becoming the key issue of the present Parliament - public expenditure. Mrs Thatcher's long wanted to take a sharp axe to it, for only in this way, she believes, can she achieve one of her major goals - to cut taxation and bring about her promised transformation of the British economy. Up till now however, she's had little success, so now at the start of her second term the issue has become her top priority. Mrs Thatcher knows, however, that serious risks attach to making deep spending cuts. And this week, as she prepares to receive the acclaim of the faithful at her party conference, she knows she faces a tough decision. For if she doesn't cut spending this time round, she can say goodbye to any further hopes of tax cuts and to her reputation as a radical. Reports over the last few days, and even this morning, indicate that her closest colleagues are emphatically staking out their positions. So today, we're going to examine the difficult choice she faces. And later in the programme, we'll be presenting a revealing interview with John Biffen, one of her closest and most trusted advisers. It's an interview that provides an unusually clear insight into the way the thinking of at least one camp is moving in the highest circles of the government. And it's likely to add further to the fierce row over the Government's objectives which now appears to be brewing. First though, let's hear the latest news headlines from ITN and Martyn Lewis.

NEWS FROM ITN

BRIAN WALDEN

It was clear from the moment that Mrs Thatcher became Conservative leader in 1975 that it would be much easier to talk about than to realise her vision of the transformation of Britain, that she believed was required to put it on the road to recovery.

She wanted a society in which the individual was free from what she saw as the excessive burden of the state. The two state impositions she regarded as most pernicious were inflation and high taxation. And of the two she knew that taxation was likely to prove the more deep-seated problem. But she also knew that it was an issue that couldn't be shirked. For in her view, it damaged the essentially Victorian values of self-reliance and personal responsibility, which she regarded as the foundation of a free society.

MRS THATCHER (Tory Conference Speech - 1976)

"The more a family has of its own money to spend, the more independent it is of the state. The more that is taken away from that family by taxation, the more that family are under the heel of the state, and that is where socialism wants them."

BRIAN WALDEN

In realising her aim of allowing people to keep more of their own money, Mrs Thatcher knew that her options were limited. She might have hoped to be helped by economic growth, for if people were earning more in a growing economy taxes would fall as a proportion of earnings, while still leaving the Government with the money it needed. But Mrs Thatcher knew that in the midst of a world recession economic growth was most unlikely to occur. Instead, she knew she would simply have to take less cash out of people's pockets. One way to do that would be to borrow money for public spending to make up that lost through lower tax revenues, but Mrs Thatcher believed that more government borrowing would wreck the other arm of her plan - curbing inflation. So in the end, the only remaining option was to reduce government expenditure if she was to reduce also the amount of money ordinary people paid in tax, and from the start she knew that that was the option she had to choose.

MRS THATCHER (speech - 1976 - continued)

"So the only common-sense answer is to reduce government spending. And that's our answer. But economies started as a matter of urgency must be sustained. They must be sustained deliberately, carefully and humanely over the period of a full Parliament."

Mrs Thatcher's vision for Britain wasn't universally supported within the Tory party. Many prominent Conservatives at the time - later dubbed the Wets - were deeply sceptical about the whole approach. The Wets, led by men like Jim Prior and Michael Heseltine, took quite the opposite view to Mrs Thatcher's. Their belief was that cutting public spending would harm recovery, and though they would have liked tax cuts they were prepared either to do without them or to increase borrowing to get them, even at the risk of some inflation. But when Mrs Thatcher became Prime Minister in 1979, many of the leading members of her government, and particularly those in charge of the economy, were dedicated Thatcherites. But for all their promises to curb public spending, they soon ran into trouble. To begin with, Sir Geoffrey Howe, the new Chancellor, found himself pledged to allow certain spending increases in areas like law and order and defence. But worse than that, the Chancellor was soon brought up against some of the ever-present realities of public expenditure. In the areas he would have liked to cut a range of unexpectedly powerful forces conspired against him, all tending to push spending not down, but up. One major upward pressure on spending, as it is so often, was the pay of public sector workers. It tends to rise in line with the private sector. But the real cost is higher, because in the nature of some public service jobs like teaching and social work employees can't increase their productivity to compensate. Another major spending pressure arose through technological advance. The discovery for instance of new drugs, or the development of sophisticated new weapons, created new demands for resources in the health service and in defence. And the cost of new technology is invariably higher than that which it replaces. Pressure for more money came too from the serious increase in the number of welfare claimants. During Mrs Thatcher's first term of office, unemployment rose by one and three-quarter million. All of them were entitled to benefit payment, and at the same time the number of old people rose too, many of them needing pensions and expensive medical care. Extra funds for these people were required.

BRIAN WALDEN (cont.d.)

So throughout Mrs Thatcher's first period in office, factors like these posed a severe challenge to her aims. To have achieved significant tax cuts would have meant cutting savagely into many cherished areas of public spending. For Mrs Thatcher, this created a dilemma. Cutting might have proved publicly acceptable, but equally it might have sparked widespread protest. In the event she decided the risk wasn't worth taking. She allowed public spending to rise, and as a consequence so did taxation. At the start of Mrs Thatcher's term in 1979, out of the country's national income the government took 36% in taxation. By 1983, after four years of wanting to reduce it, taxation had in fact risen to take 40% of the national income. So Mrs Thatcher's first Parliament was a failure in what for her was a vital element in the plan to transform Britain.

Mrs Thatcher's decision to back off on such a vital policy front as taxation might have been expected to give her grave difficulties when she called a general election last June. In the event, however, it wasn't by that decision that she was judged. The public, it seemed, decided to reward her for her victory in the Falklands and for her undoubted success in reducing inflation, rather than pass judgement on her decision to sacrifice tax cuts for public spending. Now embarked on her second term however, Mrs Thatcher is aware that the way people judge her next time may well depend on how she finally resolves the long-postponed question of whether to slash spending to cut taxes. Having had her reward for the conquest of inflation, it's increasingly widely believed that how she deals with the other main arm of her recovery plan will now be the crucial test of her political career.

PETER RIDDELL - Political Editor - 'Financial Times'

Taxation and public spending will be very important issues in the coming Parliament. Mrs Thatcher was furious that she wasn't going to be able to satisfy her supporters by cutting back taxation in the last Parliament. And she's very aware that her supporters, the skilled working class and middle-class people who took her into power in 1979 and supported her in 1983, they will need their reward, and she will want to be able to say by the time of the next election that tax rates have been cut.

PETER RIDDELL (cont.d.)

There are plenty of risks involved in that, the risks by cutting public spending public services will be squeezed and this will affect people's attitude as well, so it's a very fine balance with tax cutting and a squeeze on public services.

BRIAN WALDEN

So as Mrs Thatcher contemplates which way to move on public expenditure and taxation, she'll be well aware of how much hangs on the decision. At first sight, it may seem to her that if she were to decide to go for tax cuts, the task would be easier than it was first time around in 1979. That's because, unlike then, it's now expected that we can look forward to some economic growth. Since the beginning of the year, the world has slowly been climbing out of the recession of the early 1980s, and although it's still unclear how strong the recovery will be, most forecasters agree that the economy should grow by about $1\frac{1}{2}\%$ a year for the life of this Parliament.

GAVYN DAVIES - Economic Forecaster Simon and Coates, Stockbrokers

Well, many economists are reluctant to give a precise estimate for economic growth over a medium-term period, because the past doesn't give any reliable evidence. In the 1950s and 1960s, Britain managed a growth rate of about 3% per annum, but in the last 10 years we've grown only by about $\frac{1}{2}\%$ per annum, and in the last five we've hardly grown at all. Now most economists believe that in the next five years things will not be quite as bad as they have been in the latest decade, and the consensus view, with which we agree, is that economic growth from now 'til 1988 will average about $1\frac{1}{2}\%$ per annum.

BRIAN WALDEN

For Mrs Thatcher, economic growth ought to provide an opportunity. It should mean that for the first time since she came to power tax cuts would be possible without cutting public spending. However, it's not likely to prove as painless as that. The pressures that thrust public spending upwards before are still in play. Indeed, it's become clear that simply to meet existing commitments public expenditure will once again have to rise over the life of this parliament.

BRIAN WALDEN (cont.d.)

Since the general election, pressure for more money has come from all Mrs Thatcher's major spending ministers. Norman Fowler, the Social Security Minister, has said he'll need a further 1% over and above inflation just to provide the same service as before. His colleague, Kenneth Clarke, also expects to need another 1% if health service standards are to be maintained. And Michael Heseltine's defence budget has been promised, at least to 1985, an extra 3% to modernise Britain's defences and to meet commitments to NATO. When these big spenders are taken together with the rest of the Cabinet, it's estimated that Ministers will be asking overall for 1½% increase in funds above the rate of inflation. And it's an increase that would have to be paid if Mrs Thatcher wished to avoid cutting into present standards of service. So the increases in public spending required just to stand still look as though they'll roughly match the expected annual growth rate. Treasury forecasts have even suggested that on present trends public expenditure might rise even faster than the rate of growth. But last week a report by the Institute for Fiscal Studies suggested that the Treasury may have exaggerated the problem, and that the rise in spending is likely to be more steady. Where all forecasters agree however, is in believing that for Mrs Thatcher's more radical hopes the prospects remain bleak, for although maintaining public spending levels may not push taxes up, it means given her adamant opposition to borrowing that there's not likely to be any spare cash generated by growth to finance tax cuts.

GAVYN DAVIES

What that means is that taxes probably will not have to increase as they did in Mrs Thatcher's first term, but also that there won't be any scope for Mr Lawson to reduce taxes, which he's on record as saying he wishes to do. If the Chancellor wishes to gain room within his borrowing constraints to cut taxes during this Parliament, then he will have to persuade his Cabinet colleagues to reduce public expenditure in the later years of the Parliament.

BRIAN WALDEN

So the question of whether or not to make real cuts in public spending to reduce taxation is now firmly on Mrs Thatcher's agenda.

And it's quite clear that on so vital an issue for her political future she's not going to be rushed into a decision. For this year, it seems that Nigel Lawson, the Chancellor of the Exchequer and the man who has to implement any plan, is content to mount what looks like a holding operation. When he was appointed to his post last June, Mr Lawson swiftly announced an emergency package of cuts, especially in defence and health. He demanded that £500 million a year be instantly chopped from public spending this year. And since the beginning of September, he and his junior Ministers have been trying to get the spending departments to agree to further reductions totalling £2½ billion in next year's budget. But over the longer term, an exercise on this scale wouldn't make room for any reduction in taxation. Nonetheless, it's clear that these measures should not be seen as the government's last word on public spending. It's more likely that they're there to provide a breathing space while Mrs Thatcher and her Ministers contemplate the long-term. Only last week, it emerged that a major expenditure-cutting plan is under discussion amongst senior Ministers, so for the present at least the issue is probably wide open. But as Mrs Thatcher and her Ministers consider their position, already events have assailed them that intensify their difficulties. The cuts to the health service announced in the summer, which by Mrs Thatcher's standards were modest, are now being implemented to a storm of protest and down the country. The announcement of 5,000 job losses was greeted by pickets and demonstrations and two weeks ago Norman Fowler was jostled and abused by health workers on a visit to Sheffield. The public opposition aroused by these cuts has already begun to have a profound effect on the people closest to Mrs Thatcher. In the minds of some, who might be called the cautious Thatcherites, the public outcry has produced the same loss of nerve that caused the government to avoid really major spending cuts last time. Prominent amongst the cautious Thatcherites are thought to be Leon Brittan, the Home Secretary, Patrick Jenkin, the Environment Minister, and Norman Fowler, the Secretary of State for Health and Social Security.

BRIAN WALDEN (cont.d.)

And their caution is becoming increasingly apparent too on the backbenches. These people draw a very simple conclusion from the protest that's been seen so far. They've come to the view that if cuts on this scale can produce so widespread an outcry, then cuts on the scale needed to achieve significant tax reductions might produce an uncontrollable reaction that could destroy any hopes of re-election. They believe the public is making plain its preference for public expenditure over tax cuts, and therefore that the government should settle for doing no more than containing public spending to the level needed to maintain present standards of provision.

The cuts in the National Health Service this summer have certainly concentrated the minds of a number of MPs. There is a group of Conservative MP's who are now saying that the cuts have gone far enough, that the Prime Minister should come out and say publicly that she is prepared to protect the Welfare State, and do so even if that means putting up taxes or at least keeping them at the present levels. The reason is that the electorate are now getting so angry about the cuts in the Welfare State, that they realise it is going to be politically very dangerous unless the Prime Minister does something, and does something soon, to stop some of the unrest that's being caused in their own constituencies. And they're certainly feeding that back through to the leadership.

BRIAN WALDEN

That mood of pessimism however, has by no means gripped all of Mrs. Thatcher's Ministers and advisers. There is also a group who are convinced that in backing away from the issue in the last Parliament, the government was mistaken. And they believe it's essential that this time round, with taxation and spending so clearly the prime issue, the error shouldn't be repeated. This group, who might be called the radicals, believe that the government should embark upon a programme of deep inroads into public spending, to prepare the ground for major tax cuts by 1988.

Most prominent amongst the radicals are thought to be Nigel Lawson, the Chancellor of the Exchequer, Sir Geoffrey Howe, the Foreign Secretary, and Norman Tebbit, the Secretary of State for Employment.

Nigel Lawson, in particular, has just nailed his colours firmly to the mast. In an article in today's Sunday Express he argues that the government's priority must be to bring down taxes. He says: 'The overall burden of taxation has yet to be reduced. It's a task we have to tackle'. The radicals are convinced that large areas of public spending can reasonably be cut. And more importantly, they believe that if the policy is correctly presented or marketed the public could be brought round to accept the cuts, and even see their benefits.

So far nobody's made clear precisely what target of expenditure cuts should be aimed for, but many would say that the least that should be done is to return to the levels of taxation that prevailed in 1979, when Mrs. Thatcher came to power.

To achieve that would involve cutting public expenditure - which stands at 119 billion pounds this year - to 107 billion pounds, the maximum that could be financed by the same tax burdens as in 1979. That would mean making sure that public spending is 12 billion pounds a year less by the end of the Parliament than it is now. It's a formidable political challenge. It's a challenge however to which a number of radicals have already given considerable thought. Across the range of major spending areas, schemes for drastic saving are now being prepared. And simultaneously, the radicals are advancing the political arguments which they believe might overcome the expected objections.

Social Security is a prime target for the radical advocates of cuts. For all its possible difficulties, they believe it's a nettle that must be grasped.

Nigel Lawson's willingness to consider such ideas is revealed in press reports this morning that he is contemplating changing the tax-gathering system to show the full extent of social security spending to the taxpayer. But a scheme like this wouldn't in itself produce savings. The radicals however, have got specific proposals for cuts. The most far-reaching of these is the highly controversial proposal that child benefit payments should be taxed. A measure that would save the government almost a billion pounds a year. The cautious Tories strongly oppose such a measure as seriously weakening the Conservative image as the party of the family. Nonetheless, the radicals believe that even taxing child benefit could be a vote-winner once it's pointed out that under the present system the rich receive benefits paid for by the taxes of all, including the poor. But it's cutting the Health Service, though, that's probably the most contentious proposal of all advanced by Mrs. Thatcher's radicals. It's the area of public expenditure that probably attracts the greatest loyalty from British people. Nonetheless, this pamphlet will be published tomorrow by the influential Tory Bow Group, arguing explicitly for major Health Service cuts. The scheme the Bow Group argues for is that individuals be given tax incentives to invest in private health insurance. The more people that were to do so, the fewer hospital beds would have to be directly provided by the state. Indeed, the state could even sell off hospitals to the private companies. The total saved could run into hundreds of millions of pounds a year. However, Tory opponents of such a plan would raise the gravest objections. They would argue that the risks were immense and that it's a measure that could well arouse the deepest hostility in people who might feel themselves being coerced by the

run-down of the public health service into private provision that they couldn't afford. Despite this however, the radicals believe their notion could be sold politically.

DAVID HOWELL M.P. CABINET MINISTER 1979-1983

I think the public will be convinced generally if they know where we are going in health provision in the nation overall. You see, what is the aim, the aim is to have a good, first class National Health service, the Conservative Government have said that's what they wanted and they do. And that, provision for that is contained in the kind of public expenditure forecast that already exists. But there is an enormous increased demand coming along over and above any past growth, and that I think should be syphoned off into private provision. So I believe the two, private and public, can live well together and we ought to be able to bring home to people that this is a pattern worth fighting for in the future and that it justifies some of the difficulties going on now with reorganisation.

BRIAN WALDEN

The radicals are aware that trying to sell cuts of this kind to the British people is likely to prove very difficult. But there are cuts which might be more palatable. And the radicals also advance proposals for these. Defence is the most obvious area for cuts of this type. For it's long been realised that spending on defence is much less popular than spending on welfare. For the radicals, defence cuts have a specific virtue; they believe they would make the other cuts easier to sell. In the public opposition to welfare cuts, it's frequently argued that if the country can afford missiles it can afford hospitals too.

But by proposing defence cuts, something very hard for many Tories to swallow, the radicals hope to defuse that threat. The major savings the radicals have in mind concentrate on Britain's contribution to NATO. They believe that not only should Britain cancel its present pledge to increase its contribution to NATO by 3 per cent a year, but that it should actually reduce its contribution substantially. One particular measure advocated by a Tory think-tank, the Adam Smith Institute, involves the withdrawal of half the 58,000 soldiers stationed in Germany in the British Army of the Rhine. That would save, argue the authors of the plan, 815 million pounds a year. Cuts like these might indeed take the sting out of some of the public protest against welfare cuts. But there are of course other voters who would be most concerned at the apparent weakening in the nations defences. So to those people, the cuts would also have to be sold as justifiable on their own merits.

JOHN WILKINSON. M.P.

The British public can be quite easily convinced that a modest reduction in British defence spending is rational and right. We are after all the second largest contributor to NATO, we spend more of our gross national product, of our national wealth, on defence than any NATO country except the United States. The British Army of the Rhine costs us three times as much as the air defence for the United Kingdom, and in those circumstances, with the West Germans an increasingly powerful economic nation, the British public could be well-persuaded by a government that the sort of policies, including the reduction of BAOR, would make sense.

BRIAN WALDEN.

It's on this debate between radicalism and caution that Mrs. Thatcher will have to adjudicate before she decides which course she will actually adopt. But before she makes her choice the radicals will want her to listen to one further argument, which they believe gives them the edge. The great disadvantage of the cautious approach, they say, lies in the fact that it offers no vision. On the contrary, it's entirely politically defensive. By merely containing public spending, the government could offer no hope of tax cuts and the long-promised transformation of Britain. Instead, the government would face public opposition in any case to their limited programme of cuts, and they would be facing it for no reward. Much better, argue the radicals, would be for Mrs. Thatcher to take the political offensive and talk of vision and change.

DAVID HOWELL MP.

Well, I think that the difficulties of cutting public spending and often rather cherished programmes are much reduced if people know where they are heading, if there is a clear vision which indicates, as it should do in this instance, that we are aiming for a low-interest low-tax nation that can really get the engine of job creation going, compete with the Japanese and the Germans and generate the prosperity for decent public services as well. Now if that's the aim, then of course it will never be easy, but it would be a good deal easier than asking people go into every ditch and climb every hedge without really being able to see more than a few yards ahead. That second way is bound to create more aggro.

There can be little doubt that many of the cautious Thatcherites will recognise the political force of that argument. And if the course were adopted by the government, the point might be reached where a more positive political vision was needed in order to compete effectively in the next election.

Were that point to be reached, it could have very far-reaching consequences. Having turned their backs on Mrs. Thatcher's original goals, the only alternative might be the prospectus offered by those so long in the wilderness - the Wets.

The Wets, after all, have at least always had a fully-worked out view, based on borrowing and higher public spending, of how the economy should be brought to recovery. And the cautious Thatcherites may come to believe that in the battle of ideas between the radicals and the Wets, there is no middle ground. Naturally, for some cautious Thatcherites the position of the Wets will hold very little appeal. When faced with the choice those people might return to the radical camp. But others may be up for grabs. And what's more, there are already some limited signs that the Wets have spotted an opportunity created by the rift among the Thatcherites. There's a mood of optimism, amongst Wet MP's. Having waited so long in the wings, there's now talk amongst them that their fortunes might be about to take a turn for the better.

CYRIL TOWNSEND M.P.

I do detect that more and more of my colleagues do not regard swingeing cuts as the way forward. After all for four years now we've been making cuts with an increasingly blunt axe, and there is a limit how far you can go in that direction.

I believe that more and more of my colleagues are going to come round to the view that somehow we have got to support what is rather a precarious and patchy growth rate at the present time , and that means a moderate, sensible and responsible measure of reflation. I see that as the way forward in the long run, and I believe as the election looms on the horizon more and more of them are going to take a positive view and therefore I am optimistic, in the long run , yes.

BRIAN WALDEN

This new hope amongst the Wets presents a grave problem to Mrs. Thatcher as she ponders her course of action. For it may well be that to abandon the radical option could mean setting off towards the point where the Wet strategy is the only tenable alternative. And even if Mrs. Thatcher were inclined to avoid taking a decision, she could find her hand being forced. More and more of her supporters are likely to make the the choice, and if she's not going to lead she'll anyway have to follow. So in the end, she'll have to make a judgement, And it'll be about the mood and desires of the British people. But it's a judgement upon which her whole future may depend. She might be persuaded that the risks of making very deep public expenditure cuts are simply too high to countenance , even if the alternative is to be a complete U-turn. On the other hand it's possible that she'll be persuaded to take the gamble and go for broke. As she makes up her mind she'll depend probably more than anything else on her closest and most trusted advisers. One of the most influential of those is John Biffen, leader of the House of Commons. Mrs. Thatcher's always depended on him as one of her key allies. He's also known for his independent mind. Which way he goes will be of critical importance to Mrs. Thatcher. I spoke to him yesterday near his family home in the West Country, and in a moment we'll be back to hear what advice he plans to give the Prime Minister.

PART TWO

BRJAN WALDEN

Mr. Biffen, plainly the most crucial problem facing the Government is that of public spending. The Prime Minister's always made quite clear that the sort of society which she would like to see developed involves serious reductions in taxation. But plainly, in this Parliament at least, there aren't going to be serious reductions in taxation unless there are serious reductions in public spending. Now, some of your colleagues say - ah, but that's too dangerous, we really cannot start cutting at that scale because of the political consequences of it. Which view do you take? Do you think the Prime Minister should stick to her aim and that there should be serious cuts in public expenditure, or not?

JOHN BIFFEN MP - LEADER OF THE HOUSE OF COMMONS

Well, I think that the Prime Minister is quite right to foresee a situation in which public spending will be under the same disciplines that we have tried to supply in the last Parliament. If we are successful to that end and if there is a recovery in the economy, then it's quite likely there would be scope for reductions in taxation, but I am sufficiently a prudent politician that I wouldn't like to forecast here and now where one would be towards the end of this Parliament as far as the rates of tax are concerned.

BRIAN WALDEN

All right. Now, I'm interested in the way that you phrase that, and you'll correct me if I'm wrong. But what you did not say was - it is so imperative to have tax cuts that because I am prudent and because I can't be sure that we will get them if we carry on as we are, then there must be dramatic cuts in public expenditure in the near future. Plainly, you regard tax cuts as a bonus that you might get if things work out well.

JOHN BIFFEN MP

That's right.

BRIAN WALDEN

That's very interesting. Let me now run you through some of the things that people have suggested should be cut. Plainly you don't appear to have very much enthusiasm for them but I'll just take the various headings in case I'm wrong and you do have some enthusiasm for them; defence, social benefits, the Health Service, taxing child benefits, doing something about education, do you see any scope in any of those things for substantial cuts?

JOHN BIFFEN MP

Well, the Treasury have, themselves, published forecasts of public spending over the next couple of years or so and I would have thought that those demonstrate quite clearly how very close to the margins we operate in these matters. That is to say we have commitments to NATO which underpin a very substantial defence budget. We have commitments to the indexation of a whole range of welfare benefits, including retirement pensions, which again indicate that this is an area of very substantial public spending, and if you take the record of the Government in the past Parliament, it was one where in fact spending on the National Health

JOHN BIFFEN MP (CONT'D)

Service in real terms increased and I believe that again will be true in this Parliament. Now, having said that, I am saying that, of course, there will always be the Treasury anxiety to try and trim public spending increases as much as is possible, but there is a political imperative which is buttressed by formal political commitments, which puts a very clear limit on those ambitions.

BRIAN WALDEN

Well, nothing could be clearer than that. Let me, however, put to you what I think are the political consequences that might flow from it. You see, I remember you once giving me a very stern lecture about growth and pointing out that sensible people should not depend upon future growth because it frequently didn't happen. So you could very easily be in the situation, could you not, at the time of the next election where the cream has not floated to the top. Where there is, therefore, not a lot of scope for tax cuts and therefore there haven't been any tax cuts. Let me put this to you. Isn't that in some senses the worst of all the options available? Because to begin with it throws some doubt on the whole prospectus that Mrs. Thatcher put forward. Also, you're sending her into an election with a very unimaginative, dreary sort of promise for the future. Can I put it to you therefore that a more radical strategy which did produce tax cuts, or conversely the old wet strategy of spending a lot of money and trying to regenerate the economy that way, are more politically viable than the strategy that you seem to think is the one that you're likely to face at the next election.

JOHN BIFFEN MP

Well, I was being descriptive, and I think fairly descriptive, in pointing out how I thought matters were likely to proceed as far as public spending is concerned, and I accept at once of course your comment about economic growth and, which you fairly quoted me as saying, one should be very, very chary about assuming increases in economic growth. I think I'm entitled to say that doesn't make one into a permanent pessimist, and the fact is that a number of outside bodies are now suggesting that there may be rather more growth in the economy, and I think that the Institute for Fiscal Studies, for example, would be suggesting that matters are not quite as cribbed-in as perhaps some of the pessimists within the Treasury have hitherto been forecasting. But if I can say all that and put it to one side for a moment. It does mean that I wish to be restrained in my language now until we get well into this Parliament and until I can begin to see more clearly what are likely to be the economic circumstances come the next General Election, then I will be more definitive in my language and I hope I may cheer you up by being more robust.

BRIAN WALDEN

Ah. Well, now, all right. Don't say more robust, Mr. Biffen, you're quite robust enough. Now, however, I can ask you a question that obviously follows from that. Are you saying that if, in a couple of years' time, whether things have gone well or whether things have gone badly, your mind will be much more concentrated on exactly what the next election campaign is going to be fought about, so that if the Prime Minister or any of your other colleagues say to you, well now look, come on John, we have got to choose a strategy, if it's a little bit more vigorous than steady-as-you-go, you will then be prepared to take a serious interest in choosing?

JOHN BIFFEN MP

I say, without any sense of shame, that I think about, or I thought about the next General Election the moment the results had been declared for this present Parliament. I think that anybody who lives in a long-term sense about politics must feel that way. But having said that I was concerned in that sense, nonetheless, all my experience as a political tactician requires me to keep my rhetoric and my actual election strategy until the last half of a Parliament, maybe the last 18 months, because I think it is foolish to try and dissipate those qualities earlier, and very often you are simply not in a position to sense the economic and political world until that time.

BRIAN WALDEN

But we do know, don't we, already, without in any sense wishing to exaggerate the problem or throw cold water on any hopes, we do know already, do we not, that the scope for tax cuts, on even quite favourable assumptions of growth, is not going to be very great, is it?

JOHN BIFFEN MP

No, I quite agree, I accept that. I mean, I think that they may be quite substantial at the margin in certain areas and if they were accompanied by more general measures of tax reform there could be quite significant shifts in the pattern of taxation, such as, for example, we had in the early days of the Chancellorship of the late Lord Butler in the 1950's, but I don't think that anybody looking at the pattern of public spending can believe that there is scope for very savage reductions in the totality.

BRIAN WALDEN

Supposing some of your colleagues come to you, in the near future, and say, well our views are very similar to yours John, but we do think that we've got to go into the next election having delivered some tax cuts and therefore we have got to get down, right now, to seriously contemplating the possibility of cutting public expenditure, you say it's very difficult, all right, but you're putting us in an awkward political position, we've got to start planning for this. Would you take that approach with any sympathy ?

JOHN BIFFEN MP

I would not be immediately sympathetic to that approach although we are asked to consider this conversation when we don't know what will be the background of economic growth and we don't know therefore to what extent additional resources might be available, but I'd say this: Although tax cuts are a very laudable objective for Conservatives, nonetheless I think that you have to consider the question of Government borrowing, and if you want to have a low level of Government borrowing because you think that that is one of the integral parts of the inflationary process, then that has to take a priority over tax cuts. Then there comes the question of the areas of public spending itself. The Tory Party has a very well-established tradition of the protective role of the state and that in contemporary terms very often means an expensive role of the state. I believe that it is consistent with Tory traditions, with realism and with sense of responsibility, all of which could be demonstrated in electoral terms, that I would be happy to go forward on the strategy I have outlined, but of course I would be delighted if I could also add to it election, cuts in public spending that had been made possible by increased rates of growth, and cuts in public spending where I felt that it was politically acceptable.

BRIAN WALDEN

Your view couldn't be clearer. Supposing it isn't shared by some of your senior colleagues. Supposing they say to you - no, sorry John, this is not the way we see it, we think that this will give us a very unambitious and unappealing programme for the next election. Which way then, if they were determined to adopt one of the other strategies, either the one of radically cutting or perhaps spending more money, which one, both of which are politically to some people at least much more attractive, which one would you sooner they did?

JOHN BIFFEN MP

Well, I think you'd have to specify a little more precisely, and perhaps you'd like to tell me where the areas you're going to have the radical recasting of public spending...

BRIAN WALDEN

Defence?

JOHN BIFFEN MP

Well, I think that that would be very difficult to secure that even on a time-scale which would affect the General Election. I think that when actually one is boxed-in by the facts and realities of the situation you will be driven inexorably to my ground, and although you invite me to tread on others ground I've got a feeling they'll end up treading on mine.

BRIAN WALDEN

All right. Supposing the Prime Minister herself says, well I've always placed great weight on your advice but I must say, Mr. Biffen, it's not very cheerful and temperamentally I don't like this kind of thing, you're putting me in a very difficult position.

BRIAN WALDEN (CONT'D)

What I like doing and what the British people expect me to do and what I'm really rather good at doing - she'd be too modest I'm sure to say that but she might imply it - is having a great objective, a great goal, a cause, and advocating it in vigorous language. What succour can you offer me, Mr. Biffen? What succour can you offer her?

JOHN BIFFEN MP

Well, I can only say that I believe my approach, which of course incorporates the desirability of lower taxation and hopes that it may come about, but which will not be purchased by irresponsible treatment of public spending and irresponsible treatment of government borrowing. I have to say, if you take a different view from mine, clearly Prime Minister, you're the boss and what's more you've got a jolly sight better track record than me, so I can but present to her with the same candor and good-will as I now present to you, and indeed to our television audience, my views on these matters, but it's the nature of Cabinet life that if you're asked to give advice, you don't walk out in a huff if it's not accepted.

BRIAN WALDEN

And you least of all. I entirely accept that. But, let me for a moment ask you, you've excluded the radical strategy, in effect, at least as far as you would be prepared to advocate it, you might be prepared to accept it...

JOHN BIFFEN MP

Can I just say this. The moment I ask you to specify the radical strategy, you immediately called up the spectre of substantial cuts in defence and I simply don't believe that that is a credible proposition in the light of the last

JOHN BIFFEN MP (CONT'D)

two years of a Parliament with a view to creating the atmosphere for a general election.

BRIAN WALDEN

What however about the wet argument? Now that's quite different. That's another strategy. And it makes political sense. Well, how do you feel about that?

JOHN BIFFEN MP

Well, I think we've lived close enough to that ethos in our economic management of going for growth, of spending your way to prosperity and all the other matters that were so dominant in the establishment thinking, in economic terms, in the 1960's and early '70s that we are not quite yet conditioned for a return to that heresy and I think I only have to reflect upon when James Callaghan once told the Labour Party Conference that they used to think that you could spend your way to full employment and now one had realised that was not so. I simply believe that those who argue in those terms in the Conservative Party are living with a world which has passed, the fashion for which certainly will not have returned come the closing period of this Parliament.

BRIAN WALDEN

All right. I think that really, since you now exclude both of the strategies, the radical one and the wet strategy, it leaves me really with only one central query left. Which is about the nature of Thatcherism itself. What are you going to say, Mr. Biffen, in the next election if some elector gets up and reads some of the speeches of '79 and of later and says, look I do not think that you have fulfilled your prospectus, because I was clearly promised a lower spending government, with lower...

BRIAN WALDEN (CONT'D)

...taxation and I haven't got it, Mr. Biffen. How do you explain that?

JOHN BIFFEN MP

Well, I look at it like this. Of course the Prime Minister would like to see reductions in taxation and so would the Chancellor of the Exchequer, but these are all matters that have to be secured against a very realistic appraisal of the government's responsibilities for public spending and for borrowing, and I must say the last election manifesto wasn't studded with commitments to reduce taxation, so I think that there is plenty of evidence that not only the Prime Minister but the Government and the Conservative Party generally has a responsible attitude in these matters.

BRIAN WALDEN

So that contrary to what is sometimes said by some commentators, tax cutting doesn't have a high priority, it has a low priority.

JOHN BIFFEN MP

It has a priority to be set alongside other responsibilities and I am one of those who believe that the responsibilities on the war against inflation and government borrowing come, certainly fully equal, if not greater.

BRIAN WALDEN

So you would rather be right, even if there was a prospect of losing the election, than do what you think is wrong, namely cut public expenditure dramatically, even if you thought that would win you the election.

JOHN BIFFEN MP

Well, I find a difficulty in answering the question, not because suddenly I feel embarrassed by the nature of it, but because I do feel innately that my cautious, almost Treasury-influenced approach to these matters also is politically well-judged and attunes to the nature of the British public who I do not believe relish the thought of being involved in an economic crusade.

BRIAN WALDEN

All right, Mr. Biffen, thank you very much indeed.
Well, Mr. Biffen, as so often, couldn't have been more candid and emphatic. Although he clearly has no time for the wets, his real message is plainly to the radicals; he's utterly opposed to their strategy and he's sending them a sharp warning. Tories, he says, have a responsibility to safeguard the major areas of public spending and the British people have no interest in being part of what he calls an economic crusade. Those remarks can only add fuel to the row that's now breaking out in his Party between those of Mr. Biffen's mind and supporters of Nigel Lawson. But if John Biffen's view prevails with Mrs. Thatcher, as it so frequently has in the past, there can no longer be any real hope of tax cuts or of the long-promised transformation of Britain.

Well, that's all for this week, until next Sunday, from all of us at Weekend World, goodbye.

END.