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'PRIME MINISTER Worth reading: a good performance, in my view

CHANCELLOR - INTERVIEW ON BUDGET WITH JIMMY YOUNG

my view
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Transcript from BBC Radio 2, Jimmy Young Programme, 13 March 1981

✓ CF file (Budget) MS

YOUNG: How can the Budget, which it is being said - I mean by the Treasury among other people - is likely to increase unemployment how can a Budget like that work do you think?

CHANCELLOR: Well the effect of it is to lay the foundations for getting unemployment coming down. And the most important foundation for that is getting inflation coming down. That's the centre piece of our policy, it has been ever since we came in. So if we're to do that we've got to make sure Government's not borrowing more than it can sensibly do. Putting it very simply, I have to balance the books in a sensible fashion if interest rates are going to come down, if inflation is going to come down, if industry is going to be able to have the right chance to begin creating new jobs.

YOUNG: You see I suppose the question one has to ask is; why does it appear that the TUC, the CBI, a lot of your Back Bencher's and so on, are all at odds with you? In other words, are you the only one in step?

CHANCELLOR: You will find that the overwhelming majority of our own parliamentary Party supports the strategy we're on very strongly. And it's my impression, talking to the great mass of ordinary folk up and down the country, that they also do so. They see very clearly that we've got to get on top of inflation, and that any sensible Government has got to balance its books. And that it isn't for the Government to begin spending us back to prosperity.

If you look at what's happened in Britain you see over recent years; there's been no shortage of cash or demand But for people's wages they have been rising very sharply, but imports have been going up and not output. What we've got to do is to get the balance of the thing

right and I have to start right back here in the centre of Government. To put it very simply; last year we had very big increases in pay for all those that work in the public sector. It cost the Government £2 billion or so. In the year ahead we're going to have big increases, as is right, in pensions. That's another cost of £2 billion or so. That's £4 billion extra. And it happens that those figures coincide pretty closely with the extra revenue I'm getting on taxes on alcohol, tobacco and petrol and the taxes that are going to come from leaving income tax thresholds where they are. Now it's that sort of arrangement. I have to get it back into that sort of balance. If I'd borrowed, as we would have been doing, £14 billion then interest rates would have been going up through the roof instead of coming down.

YOUNG : You've just mentioned the magic word petrol; can I ask you about that because that seems to have caused more comment than practically almost anything else you did in the Budget?

CHANCELLOR: Yes, it's a very sensitive, and understandably, a very sensitive subject because petrol is used by so many of us in our motoring for work as well as for pleasure. Though in fact it may be surprising to say so, the price of petrol per gallon after this Budget in terms of purchasing power is almost exactly the same as it was in 1970, or in 1950. But as inflation has happened the tax take on the gallon of petrol has fallen as a percentage of it. It went up last year as you remember by 10p. In fact petrol prices haven't moved since then at all really. And this additional tax we're now taking is going a very little further than is necessary to keep the Exchequer's share in line with inflation.

YOUNG: But surely it's bound to increase the cost of transporting goods about the country and therefore bound to cause problems?

CHANCELLOR: It makes a small contribution to additional costs of that kind. The effect of it on the cost of living altogether is only just over half a percentage point because it's spread through so many different transactions. And looking at the other side of it, if I didn't get revenue from that quarter then I should be increasing my borrowing by more than another £1,000 and that would be likely to send interest rates again in the wrong direction.

YOUNG: Are you confident that you're going to get the full 20 p through?

CHANCELLOR: I think so yes. I think that when I've discussed it with colleagues in the parliamentary Party they do understand that this Budget, like so often in housekeeping, is an amalgam combination of many uncomfortable choices. While most of the taxes we're having to increase are unattractive, taxes are like that, but one's got to make the best of the choice one has. I think most people understand that.

YOUNG: But if pressed on the 20p for petrol would you be prepared to lessen it somewhat?

CHANCELLOR: No I don't think I've got any room to manoeuvre. You see, it's ~~now~~ more than a billion £'s the yield from petrol and other hydro-carbon oils. And that's equivalent to well over a penny on income tax for example. And people I don't think want to see that rate going up again. The money has got to come from somewhere. I quite believe that after we've done this our petrol will still be cheaper than most of Europe. Because I think it's the exception of Germany and Holland.

INTERVIEWER: Would it be better perhaps to have put it on petrol but not to have put it on derv?

CHANCELLOR: That I think raises difficult complications. One of them is that the diesel engine car market in this country is a particularly sensitive one and we discussed that with industry. On the whole we think they should move in line with each other. Last year in our first Budget you may remember I did actually bring petrol up and hold derv steady to get them back into line, they'd got out of line. I think it's sensible to move in line now.

YOUNG: Let me ask you something that Peter Shore said a little while ago; he said in this spiral of decline with 90% of companies working under capacity, unemployment rising to over 3 million, it's in the interests of the country to increase spending on things like long term benefit investment by which I mean railway electrification, road programmes, replacing some of the rotting sewers and housing programmes. Is it not better in fact to pay people to work rather than pay people to not work?

CHANCELLOR It's obviously better to do that if you can. But that with which you pay them, whether it's to work or not to work is limited. This is the point. And the suggesting which Peter Shore puts forward that we can somehow solve this thing by increasing borrowing is not the way out because the money isn't there to increase borrowing in that way. You see what's been happening, and people need to be reminded of this so often, is that our actual personal living standards over the last 3 years and many years now have gone on going up while the resources of companies and the resources available for capital investment by Government have gone on shrinking. We've actually all been enjoying as individuals many of the benefits of North Sea oil already. Because that's keeping the £ up and everybody is able to buy things more cheaply round the rest of the world.

So people have been becoming better off and the resources that companies and businesses so desperately need haven't been there. Hence this Budget. Hence, I'm afraid higher taxes on people but lower interest rates for business

YOUNG: Now Peter Shore said quite categorically that he would borrow the money. And when you say the money isn't there to be borrowed he says well there are vast sums in collective savings, in pension funds and so on, which could be - and he used the word - persuaded to invest?

CHANCELLOR: The way in which they are persuaded to invest in a free society is by the level of interest rates. Because the money that the pension funds and insurance companies have doesn't belong to Peter Shore or any politician, it belongs to the pensioners present and future of this country. Many millions of people whose pensions depend upon those pension funds getting the interest to which they're entitled. Now if a socialist Government was to come along and say whatever you may think about the right interest rate pension funds we're going to corral your money and begin spending it through the State at unfair interest rates, ~~at unfair interest rates~~ that would be unfair to ~~the~~ pensioners and a very very damaging thing to do. And I think that he doesn't actually recognise the reality of the world we live in. Interest rates now at 12% are well below the equivalent rates in the United States, they're below those in Germany or France. In a world at the time we're now living in ~~the~~ interest rates have to be at a certain level if people are to be fairly compensated for investing their savings. The ~~the~~ money in pension funds is the accumulated savings of pensioners.

YOUNG: Can we go back to something which we were talking about just now? would it not make sense in fact to be into projects like new roads

~~and~~ and railway investment and so on?

CHANCELLOR: I'm very much in favour of trying to find additional investment projects which can be separately financed with the private sector. Now ~~one of~~ the problems of our country at present you see is the large chunk of it is blighted by having been taken into public ownership, having been nationalised. And it's very very difficult when you're dealing with some of those nationalised industries to identify separate profitable projects into which money can be put in that way. That's one of the reasons why we're removing as fast as we can on what we call privatising. That's why we were glad to get British Aerospace back to the private sector within the last few weeks, and thank heavens 9 out of 10 of the ~~the~~ workers bought shares in it, which shows they've got ~~some~~ ^{some} confidence in it. Now if we can get projects out into the private sector in that way being disciplined ~~by~~ by profits depending upon success and ~~rewarding~~ rewarding the investor depending on success, how much better that would be. How much better off we would be if we hadn't got these gigantic industries like I'm afraid the steel corporation in public ownership.

YOUNG: Yes but you have got them haven't you?

CHANCELLOR: Of course we've got them and we're putting, because they belong to us at the moment, large chunks of money into them. Very large sums of money into those industries that are in public ownership. But when I think back on my life, my home town in South Wales in Port Talbot that used to be called the city of ~~the~~ steel that never sleeps, working as I did in my young days at the Bar throughout the steel industry in Wales. Those great private companies with ~~the~~ pride and competitiveness all taken through a political thrust into public ownership and all now sadly ~~thrown~~ thrown together in the BRITISH Steel Corporation, I regret the mistake that was.

It's to maintain those benefits for people who are hardest pressed that we have to place a tax burden on the rest of us.

YOUNG: But with respect, you said our forecast is a year ago you forecast public spending at £7½ billion. Didn't quite turn out that way though did it?

CHANCELLOR: No, public spending is probably the most ~~ix~~ difficult thing to control. But if we're to begin swapping forecasts a year ago I predicted a level of inflation that was actually 1% higher than it turned out. In other words we beat our inflation forecast by 1%. So some things do go the right way.

YOUNG: Another thing that Peter Shore said a little while ago, he said it's the role of Government in a time of recession to prime and pump the economy. What do you say to that?

CHANCELLOR: Well it's an attractive image of course. But even pump priming costs money and you have to know where to prime the pump. One of the things I think we've learned again from the experience over many years is that the politician is not very good at picking winners. The best way of ~~priming~~^{priming} the pump is by creating the conditions in which industry and enterprise can do it for itself. And that's why I think it's so important to regard the reduction of interest rates and the reduction of inflation as probably the best prize we can offer, the best way of priming the pump, ~~than~~ rather than any politically directed expenditure.

YOUNG: Now one of the main planks on which the Conservative Government was elected was the reduction of taxation. According to the Treasury this morning the total amount of taxation as a percentage of the GDP ~~xx~~ in 1980 was 44.5%. Is that the sort of percentage which you would hope to see?

CHANCELLOR: The burden of taxation as a percentage, as you rightly say, has been rising. That's not what we want. The total national

national production is not expanding. We're having to maintain very expensive programmes. I'm afraid it's inevitable that the burden will shift the wrong way. It's far worse to borrow the money than to raise it honestly by higher taxes. But we believe if we keep it in balance like that then we can get the economy growing (back into growing again and then the tax burden can begin to fall again.

YOUNG: Now it looks as though - I mean some Conservative back benchers David Crouch was on here yesterday for instance - looks as though they are ~~fairly~~ fairly unhappy with the Budget and they might try to get it amended during the committee stage. What happens if they do that?

CHANCELLOR: Well the committee stage is about discussions on the shape of the Budget. So we shall hear as we always do a number of suggestions and criticisms for discussion. But I don't believe that the parliamentary party, or Parliament itself, is likely to ~~disturb~~ disturb the shape of the Budget because it's a Budget which is founded on facts, facts founded on the options that we've got to face up to. You'll find that in most countries at the moment there are quite a lot of people who, are as you are saying, are quite unhappy. Because all the countries facing the consequences of the huge price rise in oil in the last 2 years are having to tighten their belts. And finance Ministers in every country round the world are having to face criticism for having to balance their Budgets. So of course it's tight, but I think ~~it's~~ tough but I think that most people understand that and respect the need for getting the books right.

YOUNG: Now on the thorny subject of petrol, in 1977 you said of Jim Callaghan, on the subject of petrol you said, "This is a selective tax it's deliberately biased against those who have no option over the method by which they travel to work and it's deliberately biased against those in rural areas". I mean what's the difference in 1977

CHANCELLOR: Well at that time the tax package that had been advanced was concentrated particularly on petrol price increases. What we are doing this time is in the context of a general increase in excise duty across the board. Part of sharing the burden. I think that probably some of the things that people say about the tax system are bound to be critical because it's uncomfortable. But I think that one has no option but to do this.

YOUNG: On Wednesday morning the Financial Times, following the Budget, said it would be ideal to pretend that the decisions announced in the Budget are anything more than a defeat for the Government. Do you think that's a correct analysis?

CHANCELLOR: Yes that's the opening sentence of their leading article which went on, after analysing the Budget completely, to praise me for my dogged resolution and say that I had no alternative but what I was doing. So you pay your money and you take your choice. That is the fact you see, in fact our society is determined to maintain spending programmes on the size that it has, if it's determined to go on protecting the pensioner against inflation - and that's very understandable - if it's determined to go on maintaining a health service and we're expanding resources going into health, then we have to pay for it. And the fact is that the total of spending last year is going to be higher than it was last year and taxes have to go up to pay, to balance those books.

YOUNG: But the pensioners didn't get the full rise to which they were entitled of course?

CHANCELLOR: No, they did in fact. You see, it's because of the part I mentioned earlier on. Last year we actually got prices down a point below my forecast so they got a percentage point more than they were entitled to on that analysis. This year we're simply balancing that. We think inflation will go up by 10% and they're going

they're going to get 9%. So that over the two years they will be fully protected. And indeed I think it's something we can even be proud of because over the last 10 years or so the value of the pension the purchasing power of the pension has gone up by twice as much as the cost of living. So that under successive Governments we have stood by the pensioners even although the world we're living in is getting tougher and tougher.

YOUNG: Now just now when I made reference to the FT, you carried on the quote and you made reference to your dogged resolution, or indeed they made reference to your dogged resolution; does this mean then that this is the path and ~~you're~~ you're committed to it, there'll be no U-turns and no deviation and that ^{when} you talk to me this time next year we shall still be on the same course?

CHANCELLOR : That I think is what most people have rightly read as the message of this Budget. When we set out to regard inflation and the conquest of inflation as the first objective we meant that. And a Government that does mean that has got to remain resolute in pursuit of that objective. We are doing so. I think that people will see that that does lay the foundation for the long term ~~growth~~ growth and return to prosperity that we want. If we turn back from that, like every preceding Government has tended to do, then we'll ^{find} find inflation ~~coming~~ coming back, we shall find unemployment coming back at an even higher level. It is bound to be ^{tough} tough to sustain this course but I think that most people want to see a ^{Government} Government that actually has the guts to hang on to that objective as we're doing.

YOUNG: Even though that may mean 3 million, 4 million or however many millions unemployed?

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CHANCELLOR That is not the kind of figure that is in prospect and what you've got to remember the whole time, it's the lesson of economic history over many years, if we ~~were to~~ give up the pursuit of the fight against inflation then ~~we~~ in fact unemployment would get higher still. That's the lesson of Governments in this country since 1960 onwards. Each of them left with a higher rate of inflation and a higher rate of unemployment (average rate) Each has been building if you like upon the failure of the last.

~~YOUNG: So in effect, and in a sense, as far as you the Chancellor~~

YOUNG: So in effect, and in a sense, as far as you the Chancellor of the Exchequer and the Prime Minister is concerned, ~~it's~~ it's we shall not be moved?

CHANCELLOR: We shall not be moved from our central objectives. Of course we understand that steering an economy and taking people like our own through economic difficulties of this kind is a difficult business. We are willing to respond as far as we possibly can to soften the edges of ~~we~~ change and soften the edges of what is necessary for that policy. But ~~from~~ the central objective the British people would not wish us to move, it's this objective as well.