

Geoffrey Howe

24 October 1969

Geoffrey Howe, Esq. Q.C.
20 Upper Wimpole Street
London W1M 7TA

Consultants' Contracts of Employments

As an economist my first thought is that if consultants are not being sacked it is not because they are regarded as intrinsically sacrosanct, but because their supply is significantly scarce in relation to the demand, and since they are short in many other countries, I would expect much the same security of tenure de facto if not de jure. No doubt in communist countries they are sacked if they criticise the system or for other non-medical reasons. I will look through my papers on medical care systems abroad and see what I can find. In the meantime, may I suggest you ask Francis Piggott who will be knowledgeable, articulate, and uninhibited!

May we hope for something better from Margaret. She said one day here (or rather at Eaton Square) that she was one of a small group of Tory politicians like Enoch, Keith and you who saw the value of the market in economic affairs.

From: Geoffrey Howe, Q.C.

20 Upper Wimpole Street, London W1M 7TA . Telephone: 01-935 7210

28th October, 1969

~~Dr. P. Alwyn-Smith, M.B., B.S.,
Welsh Hospital Board,
Temple of Peace & Health,
Cathays Park,
Cardiff. CF1 3NW.~~

My secretary seems
to have had a black-out!!

Dear Arthur

Many thanks for your letter of 24th October.

wrong 1
I suspect that your economist's reaction has latched on to the ~~main~~ point. The difficulty probably arises from the extent to which senior medical practitioners have cornered and rigged the market. The following quotations from "The Responsibilities of the Consultant Grade" (HMSO 1969) illustrate my point:

"The substantial increase in the number of consultants which followed the recommendations of the Platt Working Party has been accompanied by a more than commensurate increase in the number of juniors.

In recent years a large number of young graduates, who are aspiring to senior registrar posts which many may not achieve, have accumulated in the senior house officer and registrar grades.

We have seen the results of studies which show that the period of training from the time of qualification to the time of attaining a consultant appointment is usually 12-14 years. The period of post-graduate training and experience required to achieve an acceptable level of competence in a speciality in Britain is, however, very much less and with proper planning should be of the order of 8 years.

There remains the problem of providing prospects of development and advancement within this single grade.

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We have to recognise that there is immobility within the consultant grade at present, the acceptance of the first consultant post often being regarded as a commitment for the remainder of the professional lifetime. This arises understandably from the present difficulty of attaining consultant status, from the age at which this point is reached, and from other factors; but it results in an undesirable tendency to accumulate experience in senior registrar posts and to wait for even remote possibilities of appointments in major centres."

I shall not, for the moment, follow up Francis Pigott - since I have already approached several other non-economist figures like him.

I am not at all sure about Margaret. Many of her economic prejudices are certainly fairly sound. But she is inclined to be rather too dogmatic for my liking on sensitive matters like education and might actually retard the case by over-simplification. We should certainly be able to hope for something better from her - but I suspect that she will need to be exposed to the humanising side of your character as much as to the pure welfare marketmonger. There is much scope for her to be influenced between triumph and disaster!

As

John

Geoffrey Howe, Q.C. Esq.
20 Upper Wimpole Street
London W1M 7TA

31 October 1969

Thank you for your letter of 28 October. Two points:

1. Medical Care. I understood that the consultants were keeping their pay up by keeping registrars out but their restrictive practices seem more effective than I knew.

2. State Pensions. Delighted you are coming back after your sojourn in education, and that you think something can be done to galvanise opinion. I have a fair amount of material but am most reluctant to part with it because it lives at home where I do my occasional piece of writing. I will see if I can compile a list and send you either names or copies. My next utterance is an article in The Sunday Telegraph on trade unions and state pensions after the White Paper on the abatement terms. As you know, the LOA, the NAPP and the CBI have stiffened their opposition but I think there is most to be hoped from the unions. I imagine you saw the 2 October article, but in case not, I enclose a copy. Alec Laybourn of Bowring and Laybourn would be helpful; so would S. R. Plant, Pensions Manager of Allied Breweries Burton on Trent. The Government Actuary, Sir Herbert Tetley told me early this week that the terms to be announced shortly would have been worse but for his efforts. And much more. Maurice would like a revolution in pensions but I gather is being held back. Robin has been much better but need support. Not least I have material from the American chief actuary who is kicking over the traces over the dangers of "expansionism" in social security: an inside story about Nixon, Secretary Finch of HEW, George Ball, (a Democrat leftover) seems to be a Titmussite, etc. Have just heard from Myers: he is writing a Paper for us entitled, "Expansionism in Social Insurance."

Howe

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
11 Downing Street,
London, SW1A 0AA.

14 April 1980

I have been wanting to write to compliment you on the Budget, apart from two reservations, one on principle and the other on a particular. I think it deserves the approbation coming to it, sometimes from unexpected quarters. My tardiness is explained by a visit to the Far East and Australia.

Marjorie and I returned just before the Budget, and since then I have been contending with the arrears on my desks at the office and at home. Incidentally Lee Kuan Yew is applying some splendid market policies - not least congestion taxes. He said he had been a socialist and then a social democrat... I told him I thought he was an old-fashioned Whig; which I think he rather liked. (And Hayek here was delighted by your reference to your thinking along Whiggish Hayekian lines.)

Robert Muldoon in Wellington expressed himself an admirer of Margaret and her team. I went to Auckland to join in a conference with John Methven. I have written a Credo for Private Enterprise for the New Zealand Employers Federation. I found people in both New Zealand and Australia wanted to know more about how the IEA worked with a view to establishing like institutes. And Taiwan is worth watching as a market oasis along with Hong Kong, Singapore and South Korea.

Your Budget speech was admirable. Even if you had done nothing else I should have applauded it for one sentence: "politics is the art of the necessary...": that should go down into history, and I am quoting it all over the shop.

My first reservation is that you did not find room to make even a token reduction in the basic rate to maintain the momentum of your first Budget. Whatever the official (and even some of your unofficial!) advisers are advising, you will not reduce government expenditure solely by macro-economic measures of cash limits and expenditure ceilings. Even if the bureaucracy was wholly with you, it is beyond the power of government to make the adjustments in expenditure in the millions of mini-markets involved. The macro measures will do massive damage by lopping off flowers and leaving weeds. And incidentally it will make you and the government targets for vilification as callous cutters of welfare and all that. Sooner or later you will have to use the discipline of pricing. And if the effects on the RPI are an obstacle, then the solution is to tackle the obstacle, as you have been doing. But even a penny reduction in the basic rate would have had the powerful psychological advantage that people would have regarded you as a tax-reducing Chancellor. The other tax reductions do not have as strong a psychological impact.

At the other extreme the reservation on a particular is your apparent intention to outlaw the short-term high-income bond. Whatever the

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Q&A on minimum of govt.

pros and cons of the life assurance tax relief, I think Whiggish government should not use retrospective legislation to penalise people who completed contracts before the Budget speech. You may recall that in Tax Avoidance we were very critical of such governmental jobbing backwards - rather like hitting a man when he is down. I should myself have been tempted to buy these bonds. I had a word with Clifford Sharp, whom you may recall was helpful to me on my work on pensions in our early days. He tells me that these arrangements have transferred £100,000,000 out of bank deposits into gilt-edged. (He also said that the average holding was about £1,700.) I suppose the income bonds are a bit of an effort at entrepreneurship that the orthodox life offices would frown on, but that should be encouraged rather than stifled.

Not least, on a more personal plane, I must thank you for the higher tax relief on annuities, especially since when I reach the age next year when most other men retire, I shall probably be going from salary to fee at the Institute.

Love to Elspeth from us both.

(full time)

(part-time)

Arthur Seldon

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
11 Downing Street,
London, S.W.1.



PERSONAL

30 June 1980

Thank you for your letter of 11 June, which arrived while I was in Scotland.

It was good of you to respond when you must be preoccupied.

The central issue on the long-term question is whether pricing can be kept until after the economy has been righted by other measures. I would argue the case at some length but in a line I would say that, since the economy has been almost capsized by the absence of pricing, we should try to introduce pricing simultaneously with other measures. This is the case I shall be arguing in the next few months.

The reasons I will elaborate are :-

1. Macromanagement is not an exact science; like macroforecasting it is very much shooting at moving targets.
2. Micromanagement is precise in its effects; sooner or later, the demand for "public" (a misnomer) services will fall off as charges rise to cover costs.
3. Macromanagement is crude and potentially damaging: it is a scythe that decapitates flowers (the services we want) as well as weeds (the services we can dispense with).
4. Government and bureaucracy are simply not designed to manage the bulk of public service expenditure which is on personal goods and services.
5. Politicians (not you, of course), ^{talking of "cutting public expenditure"} are bringing (the) Government into disrepute and therefore preventing it from discharging the functions it must perform - defence, law and order, etc.
6. Your Government is in danger of discrediting itself as hard-faced welfare cutters and all that, when people are prepared to maintain or even increase their expenditure on services that income ceilings will cut down.

Micromanagement uses widely dispersed real information possessed by millions of individuals.

Best regards.

Arthur Seldon

7 Cash limits are abandoned by the bureaucracy, pricing by the population at large

8. Micromanagement involves a number of complications with England; micromanagement removes the competition to individual innovation in the market place.

inflation
unemployment
public spending cuts
SBR - money rule
base and not of expenditures

nationalised industry expenditure
"RE OBSERVATION" - social security payments
nationalisation
PSC (Public Representative Service Committee)
public sector pay

PSBR

g l.c.



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

// June 1980

Arthur Seldon Esq.
The Thatched Cottage
Godden Green
Near Sevenoaks
Kent

My dear Arthur

I am sorry that your letter of 14th April has not been answered sooner. Your remarks on my March Budget were much appreciated.

You had two reservations; the first concerning the failure to reduce the basic rates of Income Tax. This was primarily dictated by what might be termed the buoyancy of the expenditure side. I decided that the first priority lay with getting the PSBR down a little further from the level at which it was running when we took over - to establish, as it were, the reputation of a PSBR-reducing Chancellor. The Medium Term Financial Strategy table in the Budget red book indicates how we intend to proceed further in that direction.

You are quite right to point out that the basic rate might yet have been reduced, if we had gone for a still sharper attack on the upward trend of expenditure. Or if, as you suggest, we had moved more directly towards a pricing policy for the services at present provided free within the welfare state. I do not pretend to be at all satisfied with the progress we have made so far in bringing expenditure under control. The two areas that are worrying us particularly at the moment are local authority spending and - obviously - public sector pay. We are addressing ourselves to both of these.

/I am



*Planning
cost savings
notes*

I am inclined to feel that a switch to pricing on a really broad front is something that would only be done gradually - and could best be done when the economy had already been put on a moderately even keel. We are already establishing for ourselves something of a record in terms of legislation, and one must beware of over-doing the rate of change. However we do not have a closed mind on all this, as you know, and I am grateful for all the Institute's work in educating public opinion towards a more sophisticated understanding of what the market economy can achieve.

Your second reservation related to the outlawing of short term bonds. I think it should be borne in mind that our proposal is intended to put an end to a serious exploitation of life assurance relief. In the typical case these bonds consisted of a combination of policies under which one policy attracted a very high rate of return which depended on the availability of tax relief on the linked policy. They represented misuse of life assurance relief so as to provide a high yield short term investment. This type of offering seemed to us, and to the orthodox life offices, to fall outside the range of life assurance transactions for which the relief was really intended, and to involve an undesirable exploitation of the existing tax system.

In the period preceding the Budget, widespread Press comment led to a considerable increase in the sale of such bonds because those concerned took the view (rightly as it turned out) that action would be taken on Budget Day against them. Faced with a mounting loss of revenue, we had the choice of disqualifying such policies with effect from midnight 25 March or midnight on Budget Day. The latter course would have risked very large amounts of business being completed on Budget Day itself after the Budget Statement. I think this would have been very difficult to defend.

I'm afraid the subject of your letter - which I did read - had got mistle.

GEOFFREY HOWE

I'm told by a constituent that Maggie has a new device for spreading vouchers? Please give her a hand

As

FILE

*File
AT
10 July*



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

4 July 1980

A. Seldon, Esq.,
The Thatched Cottage,
Godden Green,
nr Sevenoaks,
KENT.

My dear Arthur

Thank you very much for your letter of
30 June.

I was glad to read that you will be
continuing to develop the case for
economic pricing.

My best wishes

M —
Geoffrey
—

GEOFFREY HOWE

FILE COPY

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
11 Downing Street,
LONDON, SW1.

15 March 1982

I quite understand about last Friday.

Alas, for the third time, I am unable to accept your kind invitation for 21 March. Marjorie and I are off to France for a conference of economists.

Congratulations on the Budget in its macro-economic context. Next year I hope you will be able to tackle the micro-economic restructuring in preparation for the Government's second term.

Arthur Seldon



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

19 March 1982

Arthur Seldon, Esq.,
The Thatched Cottage,
Godden Green,
Near Sevenoaks,
KENT.

Dear Arthur

Thank you very much for your kind letter - with, as always and not without cause, the implicit message: "Could do better"!

I am setting in hand a study of that text; one snag is that so much of the micro is not on my patch; and another that a lot of it - however desirable - is at its least alluring on the eve of an election.

Love to Margaret

As -

GEOFFREY HOWE

Geoffrey Howe

FILE COPY

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
61 Fentiman Road,
LONDON, SW8 1LH.

1 April 1982

It was good of you to write. Your note of 19 March was waiting for me on return from a conference of economists in France.

The subject of the conference, 'The Economics of Politics', is related to your response that micro-policies are not easy on the eve of an election. Since the eve seems to be about two years, and the morn, in which the Government had to deal with urgent tasks on inflation and unemployment, also takes two years, that only leaves about six months for real policy to roll back the state!

At any rate, as the only other layman on that far-off EMA Committee, you may be interested, if you want to think about something other than next year's Budget, to read a strong statement of the reasons for doing something micro-economically about the NHS. The reason is also very much Budget-oriented; if we could pay for more health services by insurance, you would not have to raise so much in taxes.

At any rate, thank you for liberalising the tax treatment of retirement annuities - not that you had me in mind!

Best wishes to you and Elspeth.

Arthur Seldon

Friday 2 April

Pravac - untract OTU Welfare State

MONDAY 5

Miskin Bureau

JEH 11.30 lunch guests 1 April (Hayek)

Walden / Hoxby / unemployment
letter to The Times
not really criticised in
Parliament unless he
pursues to defend in articles