



10 DOWNING STREET

29th January, 1980

Prime Minister

GEOFFREY RIPPON

1. In case you did not see it, I attach his article which appeared in last Sunday's News of the World.

2. I think that it is not as hostile as it appears at first sight.

3. We all hate high interest rates, and there is merit in his assertion:-

"The truth is that instead of making necessary borrowing dearer, we must stop unnecessary spending".

4. Michael Jopling is concerned about a possible Heath/Rippon axis.

5. I wonder whether we could find some job for Geoffrey Rippon to do, and which would keep him out of mischief. He will be 56 in May.

6. We could ^{not} risk a by-election in Hexham. Rippon's majority was 8548, over Labour but the Liberals polled 20% of the vote. Furthermore, Hexham shares long boundaries both with Roxburgh, Selkirk and Peebles and with Berwick upon Tweed.

7. Finally, you may be interested to see the story on the same page of the News of the World about Government Grant to the TUC.

29th January, 1980

Ian Gow

COMMENT

Britannia waives the rules

● THE Government keep on saying we can't spend money we haven't got.

Quite right, too. But if we haven't got it, why waive the rules for the Royal Yacht?

The Britannia is now at Portsmouth undergoing yet another costly refit. The Defence Ministry insist it is impossible to give the News of the World an estimate of the cost.

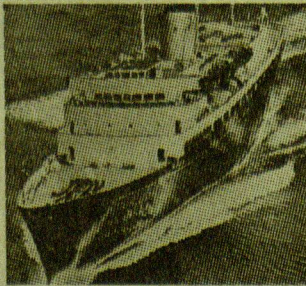
Our guess is that the dockyard bill will not be much less than two million pounds.

Treasury chief John Biffen is warning that the nation is in for "three years of unparalleled austerity."

Clearly, he doesn't include the Royal Yacht.

This floating white elephant has already cost us around thirteen million pounds over the last five years.

What is it going to be used for this year? The Ministry won't say, apart from sea



trials, and working the crew of 21 officers and 256 men up to the required pitch of plimsolled efficiency.

What did it do last year—apart from burn a ton of oil every seven miles?

It saved Prince Philip having to find a hotel for Cowes week.

It took the Royals to Arabia, Denmark and the Scottish Islands. And the Queen Mother to the Clyde and Dover.

British Airways would have taken good care of them. And for a lot less money.



RIPPON: Warning

LAMENTABLE is the best word to describe Treasury forecasting over the last decade. Time and again the economic pundits have got it all wrong.

Successive Governments have been led into policy decisions subsequently found to be based on manifestly false premises.

Last year Chancellor of the Exchequer Sir Geoffrey Howe was warned by his experts to expect a balance of payments deficit of £750m.

In the event it has turned out to be three times as large.

His forecasters contemplated a degree of pay restraint which has been knocked sideways by the recent announcement that the average pay rise in the current round is running at 19.2 per cent.

Most damaging of all was the failure to foresee what was happening to money supply, which ultimately forced Sir Geoffrey to hike the minimum lending rate to a new record 14 per cent in order to control it. Only to be told in the Autumn that it was apparently continuing to rise.

Are we about to make the same mistakes again?

Will the Chancellor on March 26 bring out a Budget full of the usual unreliable Treasury guesstimates?

We cannot afford to continue to found economic judgments on statistics that exist in a vacuum and are based on the assumption that there is no motive force coming from any other direction.

It is like a man having his nose so close to the grindstone that he cannot see the wheel going round.

Change the policy, and you change the statistics.

Instead of looking at historic and often misleading and inaccurately compiled mathematical tables, the Chancellor would do better to ask a dozen industrialists, retailers, small businessmen, farmers and householders how they see the future.

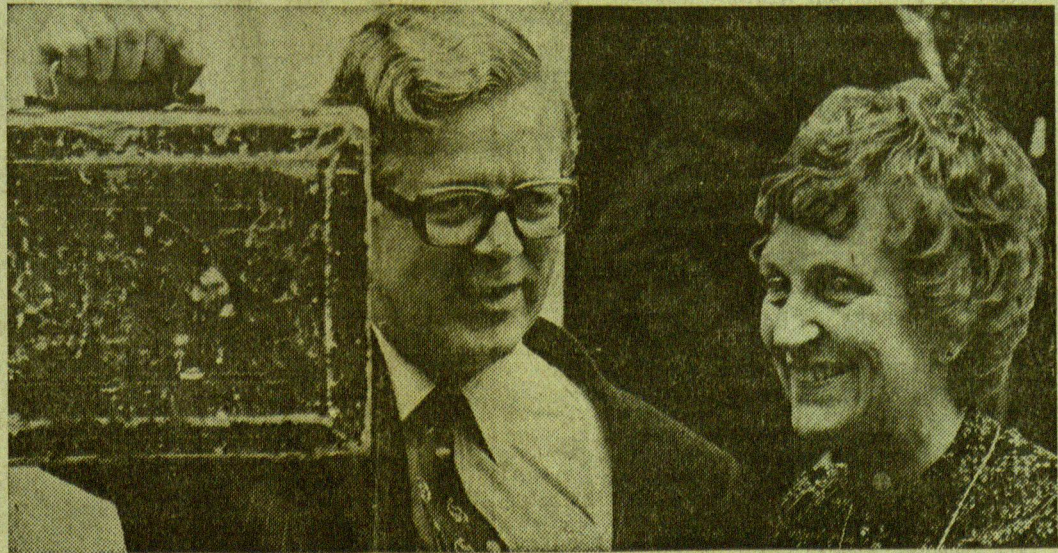
The most dangerous illusion of all is to think that control of the money supply can by itself succeed in dampening current inflationary tendencies.

Monetary policy, in the sense of

● Geoffrey Rippon was a leading Heath Minister. He declined to serve in Mrs Thatcher's Shadow Cabinet and is now a back bencher.

TOP TORY HITS OUT AT TREASURY MEN

WE JUST CANNOT AFFORD ANY MORE WRONG GUESSES



SIR GEOFFREY AND LADY HOWE: A Budget in eight weeks

BY THE RT. HON. **GEOFFREY RIPPON QC**

appreciating that a nation cannot indefinitely spend more than it earns, is an essential part of sound economic strategy.

But it cannot stand in isolation from fiscal and other measures.

Monetary management can do a limited amount of good. Monetary mismanagement may bring accelerating inflation and social disaster.

I fear that our present monetary policies have been influenced not by what is happening today but by what we were doing in different circumstances in the early 1970s.

Strong

No longer is it a case of using high interest rates to moderate a boom or protect a weak currency.

Today, thanks to North Sea oil, we have a strong petro-currency.

We have no need to strengthen the short-term exchange rate of sterling by attracting hot money from abroad that we do not want, to the detriment of the competitiveness of our exports.

Such a policy fuels rather than

contains inflation, albeit the ultimate result may be to turn recession into depression.

Furthermore, excessively high interest rates discourage investment, force up export prices, and threaten many small companies with bankruptcy.

This is the unacceptable face of monetarism.

Even if interest rates were put up still further, they would not control the money supply.

Many people have no choice but to borrow—to pay the mortgage or the wages bill.

Others think the rate does not matter as they can pass it on to the consumer in higher prices.

And consumers in their turn seek to compensate themselves by higher wages and salaries.

One thing is certain. High interest rates substantially increase Government spending through the extra cost of servicing the public debt.

Asked about this in the House of Commons, the Chief Secretary to the Treasury, Mr John Biffen could give me no information about the effect in the current financial year of the increase in interest rates since the Budget.

I venture to suggest on my own account a figure of the order of £500 million in the current year—and for all subsequent years until the debt is repaid, or rendered valueless by continuing inflation.

Well may it be said of the Treasury that, like the peasants in Charles Lamb's essay, they know no better way to roast a pig than to burn the house down.

The truth is that instead of making necessary borrowing dearer, we must stop unnecessary spending. This is not a soft option.

I do not believe, however, that cuts in public expenditure need be indiscriminate. Not every service can bear the same percentage cut right across the board.

Balance

Nor is it any good attacking at the fringes, chipping the odd million or so off activities which are important to British overseas interests but which have no immediate domestic repercussion.

There must be enough flexibility to balance regional needs. And, above all, a proper apportionment between productive and non-productive expenditure and between public consumption, and public investment which creates wealth and jobs.

This is not easy, as I know from my experience in 1973 as Secretary of State for the Environment.

But it can be done. And it must be done.

Just as the Government's tax policy is now rightly based on the principle pay-as-you-spend rather than pay-as-you-earn, so an essential part of the control of public expenditure is making people pay where appropriate for essential services before they spend on luxuries.

It also means ending abuses of social security and unemployment benefits.

Just as the alternatives are grim, so the rewards of beating inflation will be great—in terms both of jobs and in the creation of a genuine and lasting prosperity.

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