



Prime Minister 2

I think on the whole that X is a reasonable defence.

Treasury Chambers, Parliament Street, SW1P 3AG

29th October 1979 ¹² 31/10

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
LONDON SW1

Dear Peter,

Thank you for your letter of 24 October about the public expenditure forecasts for our net contribution to the Community Budget and for CAP expenditure by the Intervention Board.

I think the heart of the question is this. Should we take credit now for some major policy changes in the Community for which we are contending strongly, but which are subject to the views of our partners; and frame our other expenditure plans accordingly? Or should we wait to spend the money until we are sure that we have it; and make a decision at that point on how to spend it?

I think the second course is right. As you know, our predecessors were all too ready to base their expenditure plans on favourable assumptions which had not yet matured. I am sure you would agree we have to avoid that pitfall. I would much rather be in a position where we say publicly, if necessary, that certain assumptions we have made are conservative and that if events develop as we hope, we shall achieve our policies on the money supply, on taxation and on public expenditure that much more easily or more quickly.

Moreover, as I said in my letter of 22 October, I do not believe that we can make a more realistic forecast by assuming that the 1% VAT limit is held all through the PESC period and trying to construct a net UK contribution accordingly. We are determined to hold the 1% limit and to enforce changes in the CAP by doing so. We may succeed in that in a way which produces substantial savings by the end of the PESC period, though I see no basis on which we can calculate them at present. But all our experiences of the CAP, from the time of our accession to the most recent, suggest that changing it radically comes up against very deep-seated national interests. There are elections in Germany and France in the next two years. Determination outside the UK to hold the 1% may wane. Or determination to limit radical change to the CAP even though the 1% ceiling is held may lead to the use of devices like levies counting as negative expenditure; more national expenditure which leaves much of the surpluses untouched; or even a squeeze in real terms by CAP expenditure on the more discretionary and more controllable elements of the Community Budget. The range

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of possibilities is very large. I do not see how we could with conviction pick on one of them and say that that is more realistic than any of the others. But I am clear that an outcome of £2 billion in 1983/84 could come about with or without a change in the 1% ceiling.

I therefore come back to my point that we ought not to take credit, and spend accordingly, until we have achieved. This is all the more essential because the public expenditure totals which are emerging for 1981/82 to 1983/84 are, after all the efforts we have so far made, clearly well above what on any reckoning we would regard as desirable. This approach implies no weakening of our determination to fight on our net contribution, on the 1% VAT ceiling or on the CAP. It does imply a prudent approach to commitments on public expenditure.

I am copying this letter to the Prime Minister, other Cabinet colleagues and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "John Biffen". The signature is written in a cursive style with a large, sweeping initial 'J'.

JOHN BIFFEN