TIMES PAST
THE TIMES

P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

A HARD WINTER

The tumbrils will roll into Downing Street today for the first attempt to cut back next year's public spending plans. There is nothing peculiar to Mrs Thatcher's government in the sense of anguish and division this arouses. Every Cabinet in the past 20 years has been faced with the same mid-term crisis and been riven by it. Harmony can reign only when Ministers abandon both departmental briefs and economic convictions (the two always run in harness). The exercise guarantees conflict and this year the Treasury is said to be asking for cuts of up to £5 billion — at a time when the economy is on its back and pretty well every Blackpool fringe meeting last week reverberated with the call for more — not less — public spending, to reverse unemployment.

The budget deficit is not all a reflection of loose living — though the Government's acceptance of a rate of public sector wage-rises nearly double that of the private sector has done much to make nonsense of its rhetoric about cutting back the public sector. Every government since 1945 has found it far more difficult to get to grips with the public sector than its promises in opposition allowed. And in this case the British Government — like its similarly- inclined equivalent of the US — has been caught by the vicious cycle of high unemployment, recession and high interest rates leading to greater than expected public spending on benefits and lower than expected income from taxes, leading to the need to cut more expenditure and increase unemployment. A million unemployed costs the Government £3.5 billion. Three million unemployed costs it over £10 billion.

But if the Government was slow in preventing real public spending from rising by its initial softness on public service employees it has this year instituted very real cuts in the level of services, as universities and local councils will readily testify. The nationalized industries are still using far more than predicted, but then it is difficult to see what can be done with BL or British Steel which is not already being done, short of closing them down at a far higher cost to the Exchequer in redundancy and unemployment benefit. There has been useful pruning of waste in the public sector and there are no doubt still areas where there is fat. But to reduce public spending plans for the coming year to within anywhere near the Government's medium-term target it will have to cut where it causes real pain — reducing short-term benefits for the unemployed and the needy, cutting back still further on education and grants, raising the costs of medical care. Or it will have to raise taxes, thus further depressing the economy in a way that is anathema to Sir Geoffrey Howe.

There is no way out of this dilemma while the Prime Minister and Chancellor pin so much on the global public sector borrowing requirement. This part of the totem pole should be officially pulled down. It is not even required by monetarist theory. Dr Milton Friedman has suggested time and again that the key role assigned to targets for the PSBR is unwise because the numbers, unadjusted for inflation, are highly misleading, there is no necessary relation between the size of the PSBR and monetary growth, and, fundamentally, the emphasis on the PSBR diverts attention from the really important aspect of government fiscal policy which is the fraction of the nation's output that is diverted to uses determined by government officials.

From another point of view Lord Croham, a former head of the Treasury, has testified that damage has been done to the real economy — is still being done — by the concentration on the absolute size of the PSBR rather than the way it is made up. It is capital investment and infrastructure that gets cut every time and current expenditure and transfers that go through. This, as Lord Croham dryly remarks, would be appropriate if there were signs that we were overinvesting in our economy. He is surely right to say that investment, in private and public sector, should be determined by considerations of the expected net return "and not by the high theology of what does and what does not come within the PSBR". Such is the theology, there is even an unwillingness to allow schemes for new capital investment in the public sector to be financed by public subscription. As the Chairman of the Stock Exchange remarked last week, the mystique of Treasury accounting which confuses capital and revenue takes a lot of understanding. The parrot cry that public investment crowds out private is thoroughly unconvincing at a time of recession.

As important as this approach to the capital sector is toughness — real toughness — on current expenditure. The Government must keep public sector wages down. It would be grossly unfair to ask workers in the private sector or those receiving lower rises than inflation in state benefits to take a cut in real income if public sector wages are allowed to rise in the way they have been in the first years of the Government's life. There is a case, as we have argued, for a norm 4 per cent less than that proposed, though we do not underestimate the difficulties. But the Government has seemed somewhat nervous about applying its 4 per cent ceiling to the critical area of the nationalised industries. It should not be. If it means to succeed in its strategy for conquering inflation, and, more importantly now, containing unemployment wages must now be its first priority and that includes the wages of the miners and water workers as well as civil servants. If that means a hard winter, so be it.

A Hard Winter.
The Times (London, England), Tuesday, Oct 20, 1981; pg. 15; Issue 61060. (995 words)

Category: Editorials/Leaders