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Foreign and Commonwealth Office

London SW1A 2AH

25 January 1984

N. S. J. R.

A. J. C.  $\frac{26}{1}$

John Smith,

Institute of Fiscal Studies: Study on EC Budget

p-a.

I am grateful for your letter of 9 January and Ivor Llewelyn's of 23 December about our response to the IFS Study on the costs of Community membership.

I did not intend to give the impression that, in Sir Geoffrey Howe's view, the whole approach of the IFS Study is misguided. We accept that in the absence of a well-defined alternative policy with which to compare the CAP, the Rollo-Warwick approach (current account costs) and the IFS approach (full welfare costs) are both legitimate methods of analysis. Our concern is rather that the IFS figures can easily be misinterpreted by those opposed to the Government's negotiating strategy.

Now that the powerful advocacy of Sam Brittan has been put behind the IFS Study, we are likely to hear a good deal more about it. The onset of the annual CAP price fixing negotiation and further developments in the post-Stuttgart negotiations could well rekindle press interest. Although the IFS have admitted in discussions with Government economists that their calculations are imperfect and have emphasised their preliminary nature, the publicity they have already attracted will probably result in their being used as the point of departure for subsequent public debate. For this reason we still believe that it is important to draw attention to the qualifications which should be attached to the figures and assumptions in the IFS Study.

Sir Geoffrey Howe agrees with the Chancellor that we should not stimulate a heavy-handed counterblast. But he believes it would be desirable to ensure that any further public debate on the issue is well-informed. He therefore welcomes the MAFF suggestion of encouraging Newcastle University to publish their research findings on the costs of the CAP. Dr David Harvey of Newcastle has already made a helpful contribution to the IFS debate in The Economist. It would also be appropriate to advance the argument at occasions such as Charles Capstick's forthcoming talk at

/Reading

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Reading University.

He thinks we should also continue to clear our minds in Whitehall. I understand that the interdepartmental Byatt group which considered this subject in 1980/81 was far from unanimous on the best approach to take. We would welcome the opportunity to take part in interdepartmental discussion of the critique of the IFS Study which the MAFF are producing. On that occasion we could also consider how best to make use of this material.

I am copying this letter to John Coles (No 10), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

A handwritten signature in dark ink, appearing to read 'R B Bone', is written over the typed name.

(R B Bone)  
Private Secretary

Miss J C Simpson  
PS/Chancellor of the Exchequer

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Euro-psl : Budget Pt 22

25 JAN 1984





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

9 January 1984

R B Bone Esq  
Foreign and Commonwealth Office

N. S. P. N.

*Dear Roger,*

*A.S.C. 9/1.*

**INSTITUTE OF FISCAL STUDIES: STUDY ON EC BUDGET**

The Chancellor has seen your letter of 19 December and Ivor Llewellyn's of 23 December exploring possible Government ripostes to the recent IFS study on the costs of the CAP.

As you will know, Government economists have been in touch with the authors of the IFS study, and it is clear that their calculations include a number of substantial errors. But the Chancellor does not share your Secretary of State's view that the whole approach of the study is misguided and that the Rollo/Warwick method is the correct way of measuring the non-budgetary costs of the CAP. He feels that, when looking at the hypothetical situation of a UK outside the Community, the assumption in the Rollo/Warwick studies that we would maintain CAP support levels is as misleading as the IFS assumption that we should have no agricultural support at all.

In the Chancellor's view, both the current account costs of the CAP (Rollo/Warwick) and the full welfare costs of Community membership (the IFS approach) are legitimate methods of analysis: both were used in the 1980 interdepartmental report on the costs of the CAP (the Byatt report). The Rollo/Warwick approach is probably the more useful in bolstering our case in the Community about our net budgetary contributions; but the resource cost analysis (though not the defective IFS figures) is of considerable relevance to our efforts to reform the CAP.

The Chancellor therefore feels that, rather than looking for opportunities to produce a systematic critique of the IFS study, Ministers if pressed to comment on the IFS study, should simply say:

- a. they understand that it is an attempt to model the budgetary costs and other economic effects of Community membership;
- b. the CAP does indeed impose economic costs which are greater than the budgetary costs; and
- c. the proposals which the United Kingdom has put forward in the post-Stuttgart negotiations are designed inter alia to reduce those costs.

The Chancellor is afraid that, by actively seeking platforms to attack the IFS study, the Government would run the risk of being accused of being seriously turned by it. Taking up an existing opportunity to comment indirectly on studies



of this type as Ivor Llewellyn suggests Charles Capstick could do at Reading, seems to us a much less dangerous approach. We were pleased to note that Mr Capstick intended to discuss with our departments any comments he might wish to make.

I am copying this letter to John Coles (No.10), Ivor Llewellyn (MAFF) and David Williamson (Cabinet Office).

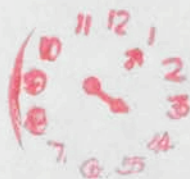
Yours ever,

*Arthur Lempson*

MISS J C SIMPSON  
Private Secretary

European Policy  
EC Budget Pt 22.

£9 JAN 1984





Ministry of Agriculture, Fisheries and Food  
Whitehall Place London SW1A 2HH

From the Minister's Private Office

R B Bone Esq  
Foreign and Commonwealth Office  
Downing Street  
London SW1

*nbpm  
29/12*

23 December 1983

*Dear Roger*

INSTITUTE OF FISCAL STUDIES: STUDY OF EC BUDGET

You send me a copy of your letter of 19 December to John Kerr inviting our views on the handling of the I.F.S. work on the costs of Community membership.

So far as the costs of the CAP are concerned, my Minister agrees that it is damaging in domestic political terms to have public discussion proceeding on the basis of the IFS figures without the qualifications which they should attract. The IFS consumer effects are calculated on a basis which is open to serious questions and the figures for the producer effects are plainly inconsistent.

This is, of course, a very difficult area, both from a methodological and political viewpoints, not least because any discussion of it raises questions about the nature of the alternative regime which is assumed to replace the CAP. We agree, therefore, that any published critique of the IFS approach needs to be very carefully handled.

We have three approaches in mind. Newcastle University has done a good deal of work on the costs of the CAP, with some sponsorship from here. We believe that they could be in a position to publish their research findings which would help to put the IFS work into a better perspective.

Secondly, we are producing a critique of our own, which we shall of course wish to discuss with the FCO and Treasury. This could follow on the Rollo-Warwick work which was done when they were officials in MAFF. We have not taken a view on how best to publish - but this can be discussed interdepartmentally. It will, however, be impossible to do all this by mid January given the Christmas/New Year break.

/Thirdly, Charles Capstick ...

*Europe Pol.  
Budget 22*

Thirdly, Charles Capstick (our Director of Economics and Statistics) is due to make a speech on 8 February at Reading University. We have it in mind that he might use this platform to comment indirectly on studies of the IFS type. Again, we shall consult other Departments on the line he proposes to take.

I am copying this letter to John Coles (No 10), John Kerr (Treasury) and David Williamson (Cabinet Office).

*Yours ever*

*lwt*

C I LLEWELYN  
Private Secretary

DEC 1983

DEC 1983



19 December 1983

A.S.C. <sup>19</sup>/<sub>12</sub>  
h.a.

Dear John,

Institute of Fiscal Studies: Study on EC Budget

*will request  
if required.*

Sir Geoffrey Howe has seen a copy of an unpublished study by the Institute of Fiscal Studies on the costs of Community membership (copy enclosed). As you know, the study has aroused considerable press interest.

Sir Geoffrey Howe has noted that the IFS study is helpful up to a point in the context of the post-Stuttgart negotiations because it reinforces our argument that to measure the non-budgetary effects of the CAP and the efficiency costs it imposes would strengthen our case on the size of our inequitable burden. Nevertheless, the effect in domestic political terms could be damaging, suggesting as it does that the cost of UK membership is greater than generally believed. There may therefore be value in getting the counter arguments out into the open before this arithmetic becomes part of the conventional wisdom, with all the implications in terms of strengthening the position of those on both sides of the House who are opposed to the Government's negotiating strategy. Sir Geoffrey has suggested that it might be right to think in terms of getting a suitably authoritative economist to publish a critique of the IFS study, pointing out that they have compared the cost of belonging to the CAP with a situation in which no domestic agricultural support policy existed and the UK's agricultural trade was conducted entirely at current world market prices - both highly unrealistic assumptions.

Any such critique would have to be written with considerable care. The line would perhaps best be that the IFS study is a useful theoretical piece; but that it is misleading to focus on its aggregate figures; and that for practical purposes the non-budgetary cost of the CAP to the UK is best measured by the method set out in the Rollo/Warwick study.

/The Foreign



The Foreign Secretary did wonder whether Rollo himself might be put up to write an article. On balance however this does not seem desirable. The arguments are political as well as technical. No doubt Treasury or MAFF officials would be able to suggest an alternative. The Commission Office in London, with whom our officials have also discussed the IFS study, have suggested that Christopher Johnson, who edits the Lloyds Bank Review, could be a possibility. We doubt however whether he would be ideal.

I should be grateful to know how the Chancellor and the Minister of Agriculture, Fisheries and Food consider we should handle this question. Subject to any further thoughts, Sir Geoffrey's inclination would be that we should seek to ensure that an article appears after the holiday season around the middle of January.

I am copying this letter to John Coles (NO 10), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

*Yours ever,*

*Peter Ricketts*

*RB* (R B Bone)  
Private Secretary

J O Kerr Esq  
HM Treasury