

Broadcast interview

The Budget Opportunity

15th March 1983

Background

Sir Geoffrey Howe became Chancellor of the Exchequer after the General Election of May 1979, and delivered his first Budget speech in June of that year. After his third Budget in March 1981, a group of 364 economists wrote a letter to *The Times* stating that it had ‘no basis in economic theory or supporting evidence’, and that it ‘threatened social and political stability’.

A global depression then set in from 1980 until approximately the end of 1982. By the time of Howe’s final Budget in 1983, there were some signs of recovery. The US Prime interest rate dropped from 17.0% in February 1982 down to 10.50% in February 1983.

In the 1983 budget income tax rates were left mostly unchanged but the threshold at which tax became payable was significantly increased. Taxes on beer, wine and cigarettes were also increased, and inflation continued at an annual rate of approximately 5%.

Ronald Burgess had corresponded with Ralph Harris at the IEA (Institute of Economic Affairs) in September 1978 on the question of the economic upper limit of taxation. The Atlas Foundation, an offshoot of the IEA then recently established in the United States, awarded Burgess a travel grant of \$3,000 in June 1982.

It appears that this radio interview took place on the morning of Sir Geoffrey Howe’s final budget on Tuesday 15th March 1983, and that Burgess travelled to Washington DC the following week.

The interviewer in this recording is Tommy Vance.

On budget day we hear how much more tax, and only occasionally how much less tax we're going to have to pay. Beer and fags up perhaps? Probably – they never seem to go down. Honestly, abroad you don't know how lucky you are.

But apart from our own worries, we are really in the middle of a worldwide depression or, if you want to call it so, a slump. So will anything that Sir Geoffrey Howe does in his budget today help recovery in this country and indeed in the rest of the world?

Now, the man to answer that question is my next guest, whose name is Dr. Ronald Burgess. He is the Director of the Economic Study Association. Dr. Burgess, welcome once again to our studio.

Hello.

Now, let's start by clearing up one point – have you got any political axe to grind?

No, the Economic Study Association is an independent research organisation which has been going under its present title for about twenty years. We are not affiliated in any way to political parties, governments or what-have-you; we are quite an independent research organisation.

You're strictly involved in economics, putting forward theories that you feel would make our economic life a little bit better.

That is the idea, yes. That's the object of the operation.

The object, but I would think there are quite a few hurdles and pitfalls, put in your way?

There are very many.

We haven't got time to list them all, but let me just ask you this: How important is Britain's economy to the rest of the world?

It is very important and the rest of the world is very important to Britain's economy, because we are a major trading nation in the world, so therefore, our economy is important; but, the rest of the world, how that's doing, is very important to Britain.

We cannot isolate ourselves because our industries, and indeed what we eat and drink over here, depends so much on how the rest of the world is doing. We ship to them and they ship back to us.

We're a big trading nation, so we are important.

Also of course we have the Stock Exchange, we have the metal exchanges and things like that. Are we important in that area?

Yes, we are very important in the exchanges, markets, metal as you say, and all those kind of things. The Stock Exchange is not quite so important, but we do have a very important money market in London. We are very important in banking, insurance and all those things. We are an important world centre as far as world trade is concerned.

Should, do you think, and in the view of your colleagues, should the Chancellor spend more money?

No. One of the things that has led up to the present problems of worldwide inflation and a worldwide slump is that most of the leading industrial nations in the world, including this country and America in particular, have all been spending too much for many decades, indeed ever since the end of the Second World War.

Governments have been spending far too much money and this has created the present problem. It was the inflation rate caused by excessive government spending in the western world that created OPEC. They had to have some defence, so they had to put up the price of petrol so that they could get in the goods they need.

One of the big problems is government spending too much, and that is true in this country, it's true in the United States, and indeed one could say that if the United States and United Kingdom could get their spending under control and down to a reasonable share of the nation's income, then the road to recovery will be wide open, not only for those two economies but for the rest of the world.

Why then do governments continue to spend more money? What actually motivates them in that direction? If people of your

ilk say that this is wrong, it should not be done, why do they do it?

One of the reasons is, it is a popular thing to do for governments to spend money. People think they're getting something for nothing. They forget that the government can only spend what they take off people. The government is in that position, it just spends what it can lift off people, take away; but, nonetheless it is popular and there was a time before the Second World War, when a lot of the problem was that governments were spending too little, and it's taken forty years for people to realise that whilst it is possible for governments to spend too little, it is also possible for them to spend too much and during the past thirty odd years they've been spending too much.

Have you and your colleagues worked out an optimum percentage point of overall government income that it would be wise to adhere to?

In this country, the upper limit to taxation, that is government spending measured as tax revenue plus borrowing requirement, would be about 30% of the net national product at current market prices. At the moment the government is spending well over 40% and indeed in 1975 was spending over 50%. In America, the limit is a little lower than it is in this country. It is around 25% but the American government is spending 30 to 40%.

Right, but there has been, in your eyes anyway, an improvement from 1975 to date of some 10%?

Yes, there had been a very small improvement that started when in 1975, mid-1970s, we had the International Monetary Fund coming into this country and saying, 'Now look here, this has just got to stop'. If you recall, they came in when Mr Healey was Chancellor, and since then the British government has been attempting to draw in its horns.

But whilst this government has been attempting it – since 1979, we've been attempting to draw in our horns – in actual fact we have been spending more. And the situation this year, for example,

is that if the Chancellor wanted to reduce the tax burden to the same level as it was when he came into office, he would have to cut taxes by £9,000 million. That is very unlikely. We have been spending more over recent years.

How does our inflation rate compare with other countries of the world, other major trading countries?

Our inflation rate is still on the high side. That has come down quite sharply over recent years, but much of that is due to the depression. If people can't sell their goods, then they don't put their prices up and that has reduced the rate of inflation. There is no real reduction in inflationary pressure. In other words, as soon as, or if, should I say, a recovery really got underway, then what would happen is the inflation rate would start rising. There's no reduction in the underlying pressure but the depression, the fear of unemployment, all that, has reduced the rate of inflation. People have been afraid to put up their prices, been afraid to ask for more money.

Maybe they just possibly stayed more competitive?

Yes, to an extent. We have improved our competitive position, but it is very marginal, and it is not on very firm ground.

Do you think that there is a good argument for a cut in the rate of VAT applicable to our country?

No. There are very many arguments in favour of such a thing, and the big point that is argued in its favour is that a cut in VAT would have an immediate effect on prices and tend to reduce prices, but they would only reduce prices at home and as a consequence they wouldn't help our export industries and they wouldn't help our home industries to be more competitive as against imports and this is important. Indeed being in the Common Market it is a good idea to have a fairly high rate of VAT rather than a low rate, and sort of not have such other taxes so high. It would be much better for the Chancellor to cut the burdens on employers, employers' taxes, rather than reduce VAT.

Do you see any signs of recovery in the world as a whole?

There are some signs, but this is a very difficult thing to argue about. The American economy does seem to be getting up a little bit of steam. The Prime Rate has dropped over the last few months from about 17% down to around 10%.

This is an interest figure relating to the banks?

Yes. Their leading economic indicators have been rising over recent months, but there's no real sign of a recovery. And you see when you get a depression, one has to be very careful. Our people do become a little more, businesses become a little more optimistic as depression continues, largely because most of their competitors have gone bankrupt and of course those that are left do get more business. And I would be not too sure on a recovery on a real foundation, although there are indications that people are more optimistic.

Are you yourself more optimistic?

I would only become more optimistic when I saw the British and American government taking right action. I don't know about how the American government are looking at things. I go to Washington next week and I could probably tell you more about that when I come back.

OK. Dr Ronald Burgess, nice to see you again and thank you.

Thank you.