

Straubenzee 7/8

Professor Alan Walters

1. Thank you for the letter dated 2nd December from Sir William van Straubenzee.
2. He is the most pompous man in the House of Commons (which is saying quite a lot) and is a leading Wet as you will have gathered.
3. Jane said to me once that she would prefer death than to be taken out to dinner by him.
4. I would simply ask your secretary to acknowledge his letter and leave it at that.

7.12.81

ALAN GOW



FROM SIR WILLIAM VAN STRAUBENZEE, M.B.E., M.P.
HOUSE OF COMMONS
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01-219 4343 (MESSAGES)

2 December 1981

Professor Alan Walters
10 Downing Street
London SW1

Mr Gow

He seems to
have the hump.
Should I do
anything?

Dec 3.

AW

Dear Professor Walters

In view of the fact that a substantial part of your salary comes from public funds, I do not care at all for the tone of the comments attributed to you in the Westminster Industrial Brief of November 1981. Indeed, bearing in mind very recent Government announcements, I think your comment that intellectually the rug had been pulled out from under the case made at the Blackpool Party Conference by the "wets" rings a little hollow.

I confess that from my days at the Department of Education I have always had reservations about academics being involved in political decisions even in an advisory capacity, but I feel this even more strongly when those same academics make highly controversial statements in public which are subsequently circulated widely.

Yours sincerely

Subscribers' Forum

Professor Alan Walters—the Economic Strategy

The WIB seminar with Professor Alan Walters, Economic Advisor to the Prime Minister, was held in the immediate aftermath of the Blackpool conference and on the day of the first Cabinet meeting since Parliament resumed sitting after the summer recess. Understandably, much of the discussion centred on the Government's financial strategy, the outlook for interest rates and public spending and the chances of the Government's economic policies working before the next General Election.

Professor Walters tackled the present state of the Government's economic strategy head on. He admitted that there had been a lot of discussion lately about whether or not the strategy was working. His view was that, despite some disappointments, the strategy was pretty much on course. He believed that the reduction of the Public Sector Borrowing Requirement was more or less on target and that on the money supply front we were more on course than many imagined. So far as the narrow monetary aggregates were concerned, he saw no evidence that the financial strategy had been eroded. The disappointing areas were in public spending although the overshoot here was mainly because of the slump. Britain went into the current worldwide recession earlier than most countries, and there was evidence now that we would come out of it earlier than most. Professor Walters felt that where the Government had most clearly failed was in denationalisation and deregulation, particularly of the housing and labour markets. He posed the question, "What is to be done at this stage?" and answered it by saying that in his view it was important that the Government sticks fast to its present policies on public spending, of not raising taxation, and trying to contain the monetary aggregates. At the same time, he recognised the enormous political pressure to change policies, although this was often dressed up as a desire to change the "emphasis" of policy. But Professor Walters had no doubt that a change of "emphasis" really meant a change of policy. The biggest difficulty facing the Government was, therefore, to keep on with its present policies, to push ahead with housing and labour market reforms and denationalisation measures, and to stick with this strategy for the next year to 18 months.

The Pound

In the discussion which followed Professor Walters' introductory remarks, much of the questioning fastened on policies affecting exchange and interest rates. On exchange rate policy Professor Walters made clear his ideal and second best solution. The ideal was a system of absolutely fixed exchange rates. Sadly, such a system was impossible, although the proponents of a gold standard system in the United States were trying to reach this ideal. The second best system was the very opposite—complete freedom of exchange rates. Sadly, we would have to soldier on with something akin to the halfway house that we had seen in recent years although the present currency exchange system should not be

knocked too hard. Professor Walters underlined the enormous shocks suffered by the world's economic system in the years since the 1973 oil crisis. The change in real oil prices in the last eight years, he said, had redistributed wealth among countries on a scale only equalled in the aftermath of World Wars. He cited the aftermath of the First World War when the major industrial countries went on to the Gold Standard and went into a massive slump. We had not seen anything like the post World War One slump although the shock of the oil crises had been immense. Although it was cold comfort, Professor Walters mused that despite the inadequacies of the current exchange system perhaps we should count out blessings. However, on a practical note, he poured cold water on the supporters of Britain's membership of the European Monetary System (EMS). He felt the influence of political decision making in the EMS was harmful, for it was run by politicians and not bankers. He, personally, thought the EMS might collapse under its internal political strains and saw little likelihood of Britain joining it.

Interest Rates

Quizzed on the current state of interest rates Professor Walters insisted that the Government had little alternative to facing up to the recent rise in interest rates. The move was dictated not by the Government but by the markets. If we had tried to withstand the incoming interest rate tide the markets would not have coped. The fact is that the Government has to roll over £10 billion of debt in addition to selling new debt of about £10 billion every year. It cannot ignore interest rate pressures from abroad.

Moving on to the broader world economic scene Professor Walters pointed to the crucial importance of the current American economy. The evidence suggested that the US went into a slump in late 1979/early 1980. It is providing a shock to the system but one, he felt, of limited duration. He thought it unlikely that the US would experience a long slump and he expected it to come out of recession fairly quickly next year. When asked whether Britain should gear its monetary policy to the developments in the US, Professor Walters was adamant. Britain, he insisted, should conduct its monetary policy on the basis of what is best for Britain domestically. We should not follow America into a slump as we did so slavishly in 1929.

One industrialist from the North of England echoed the view of many representatives from manufacturing industry at the meeting. He complained that industry in the North was feeling the cold winds of recession even more harshly than industry in the South. Private industry—whether manufacturing or service industries, were the wealth creators. Yet, he felt, that under the Government's policies private industry's power to create wealth was spiralling down. Another industrialist representing an oil company echoed this view and made a plea for capital expenditure on measures aimed at

encouraging job creating projects—such as the much mooted proposals for the Severn Barrage, the electrification of the railways or replacing Britain's ageing sewers.

Professor Walters agreed that the burden of adjustment had been borne by the private sector. It was a shame and underlined the need to curb the public sector. But he felt there was a real problem in bringing about a substantial reduction in public spending. In the past it had never been done rapidly except in grim conditions of hyperinflation (Germany) or revolution (Chile) or a combination of both. The most successful cuts in recent times in Britain had been those enforced by the IMF in 1976. Turning to the need to boost capital spending he felt it was "pie in the sky" to reclassify expenditure. Pleas for money for Severn Barrages or

electrification were really bids for additional public spending. Besides, too often the public sector had put forward plans for capital projects which, quite simply, didn't stand up to the most elementary cost benefit analysis.

Professor Walters rounded up the discussion by picking up a point made by a City financier who remarked that in his view the City's biggest worry was that the Government would depart significantly from its policies under pressure from the so-called 'wets'. Professor Walters felt that intellectually the rug had been pulled out from under the case made by the 'wets' at the Blackpool party conference. Personally he felt that if there was any substantial departure from the Government's economic strategy there would be little point in his staying on as an adviser to the Government.

Legislation Guide

Parliamentary Process

At the beginning of each parliamentary session, we remind subscribers of the stages by which a Bill becomes law. Most major pieces of Government legislation are preceded by a Government White Paper, which sets out definite proposals for legislation, although increasingly, this is also preceded by a Green Paper or consultative document canvassing ideas for possible legislation. All Acts of Parliament begin as Bills which become Acts, with the force of law, once they receive Royal Assent. Bills that do not complete all the stages to Royal Assent by the end of a Parliamentary Session automatically lapse. Most Bills are considered first by the Commons, but a growing number now start in the Lords because of the pressure on the Commons Timetable.

Consideration of a Bill takes the following stages:

House of Commons

First Reading: purely formal, where the Bill is first introduced to the House and ordered to be printed.

Second Reading: wide-ranging debate on the principle of the Bill.

Committee Stage: lengthy process, involving clause by clause consideration of the Bill, where amendments and new clauses are tabled, debated and voted on. Most Bills go to a small Standing Committee, constituted to deal with Bills as and when necessary, comprising 16 to 35 members reflecting party strength in the House. In general, Bills are only considered by the Committee of the Whole House if they are of constitutional importance, require a very rapid passage, or involve certain financial measures. For instance, part of each year's Finance Bill is considered in this way. In exceptional circumstances, Bills are sometimes referred to a Select Committee where evidence may be taken and a report made. During the 1980/81 session, under the procedural changes agreed in October 1980, an experimental Committee procedure for some Bills was tried out, whereby the Standing Committee could spend a limited time calling witnesses and investigating the issues involved. This was used, for example, for the Education Act 1981. A decision has yet to be made as to whether this will continue.

Report Stage: detailed review of the Bill as amended in Committee. Further amendments, alteration of amendments agreed in Committee, and new clauses may be made.

Third Reading: usually fairly short debate on the principle of the Bill as amended in the preceding stages. No substantive amendments can be made at this stage.

House of Lords

The Bill then goes to the Lords where it passes through similar stages, although the Committee is invariably taken in a Committee of the Whole House. Any Lords amendments have to be considered and approved by the Commons. If they are disagreed to, the Commons send the Lords a note giving the reasons for disagreement and the Lords consider the matter further. In the case of an impasse, the Parliament Act 1949 provides for the will of the Commons to prevail, usually after a year's delay.

Royal Assent: once a Bill has been agreed to by both Houses, the Queen gives her formal approval, and the Bill becomes an Act of Parliament.

Commencement Orders: some Acts are brought into force immediately, some at a date specified in the Act, and others by Commencement Orders, which may activate all or part of the Act.

DIFFERENT TYPES OF BILL

Government Bill: these Bills embody the policy of the administration as expressed, for instance, in the party's election manifesto or in the Queen's Speech at the beginning of each session. It may also embody the recommendations of a Royal Commission or Departmental Committee.

Private Members' Bills: there are a number of procedures under which Private Members (ie backbenchers) may initiate Bills. They are:

The Ballot—since there is always enormous pressure on the limited time available for the discussion of Bills introduced by backbench MPs, priority in the use of this time is established by a Ballot held near the beginning of each Session. The 20 successful MPs go to the front of the legislative "queue", and the Bills which they sponsor are given serious consideration. Some of these Bills cover controversial subjects (eg the Abortion Bill in the 1979/80 Session which failed due to delaying tactics). Others are suggested to Members by their Whips. The higher placed the Member is in the Ballot, the more chance there is of getting the Bill through.

Ten Minute Rule Bills—these are not in general serious attempts at legislation, and the process is used more as a means of giving a subject an airing and making a point on the need to change the law on a particular point. The Ten Minute Rule allows a speech supporting the measure to be made in the House after Question Time on Tuesdays and Wednesdays, when both Members' benches and the Press Gallery are likely to be well filled and therefore can be assured of some publicity.

Standing Order No. 37—under this rule, any MP or peer may introduce a Bill of his own choosing, although they have little chance of being seriously debated. Bills introduced by a peer in the House of Lords which have completed all stages in the Lords may be taken up by a member in the Commons and continue as a Private Members' Bill in the Commons.

Private Bills: these Bills are promoted for instance by local authorities, private bodies or individuals, and need a sponsoring MP. They are usually non-controversial and passed "on the nod", but if contested they have to be considered by a Committee specially constituted to look into the matter. A recent example of such a case is the Lloyd's Bill.