
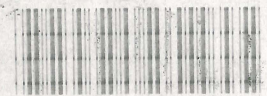


part. A

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PART A

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PART A

Chancellor's (Howe) Papers:
GOVERNMENT STRATEGY

Disposal Directions: 25 years

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Not distributed

22 December 1980

Policy Unit

PRIME MINISTER

GOVERNMENT STRATEGY

As promised, I attach a paper reviewing
Government strategy to date.

I am copying this minute and the paper to
Geoffrey Howe and Keith Joseph.



JOHN HOSKYNS

SECRET

GOVERNMENT STRATEGY: PAPER NUMBER 3

1. INTRODUCTION

1.1 This paper reviews progress with the Government's central strategy, noting the main lessons learned to date.

1.2 In summary, the Government has barely started to address the strategic problems facing it. Its performance may appear better than its predecessors, in terms of realism and determination. But against the task*it was elected to perform, its performance is inadequate. It will therefore begin to look no different from its predecessors; and will thus be judged on traditional criteria (prices and living standards) unless its perceived competence improves and its strategy is understood.

1.3 This is difficult, because the Government does not yet have a coherent and adequate strategy, nor has it organised itself to implement a strategy if it had one.

1.4 This is the point at which Ministers and Governments under great pressure can lose touch with reality, eventually hearing only favourable reports and discounting the rest. On Weinstock's dictum, "Lack of frankness is the great management offence"; this paper tries to prevent that happening. If our thinking turns out to be over-pessimistic, then nothing is lost. Certainly, pessimism (ie too much realism) has never been Britain's problem in the past.

1.5 The structure of the paper is as follows:

SECTION 2	HOW ARE WE DOING?
SECTION 3	WHY DO GOVERNMENTS FAIL?
SECTION 4	THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM
SECTION 5	BREAKING OUT
SECTION 6	CONCLUSION

* NB. We are talking about economic strategy, not about defence or foreign affairs.

2. HOW ARE WE DOING?

2.1 We are still shooting behind an accelerating target

- 2.1.1 Our failure has been under-kill, not (as our critics suggest) over-kill. This all stems from the massive underestimate of the size of the problem, which has persisted from 1978 in Opposition, right through into Office. The main result has been the lopsided Keynesian squeeze on the private sector.
- 2.1.2 Present problems - money supply, public spending, PSBR, MLR - are all part of our failure to stabilise. This stems in turn from a failure to organise for the key tasks. The muddle over firemen's pay stems from our reluctance to set up a task force after E on 23 July, to ensure we did as well as possible on public service pay settlements.
- 2.1.3 Despite a year's warning, colleagues never reached the point of understanding the difference between Transition (deceleration of money GDP) and real cuts as per PEWP. The result was a token de-indexation, giving maximum political odium and minimum PSBR impact. The simple insights about Transition and Stable State and thus the meaning of de-indexation could all have been reached by coffee break on the first morning of any sensibly run teach-in.
- 2.1.4 The decline in inflation, the apparent change of attitudes and the level of exports are all deceptive; symptoms of recession, private sector squeeze and a high pound. Private sector management probably has recovered some confidence for good. Workforce attitudes in smaller and non-unionised companies may well have changed profoundly. Union behaviour in large private sector firms has changed, but probably not the underlying attitudes. There is less sign of change in the public sector. The old wage pressures are likely to emerge when the upturn comes. Indeed, a trade union leader recently promised Jim Prior that they "would get their own back" when the recession was over.
- 2.1.5 In short, we have been brutal to our friends - employers, small businesses, the private sector; and gentle with the real problems - trade unions, nationalised industries, lame ducks, public services pay.

(2. HOW ARE WE DOING? cont.)

2. North Sea oil is the Joker

2.2.1 North Sea oil is the principal mitigating factor. The increase in oil prices has led to unprecedented recession and rapid appreciation of the pound, putting adjustment strains on the private sector which are not yet widely understood.

2.2.2 The view seems to be growing that oil prices and the pound will stay high and that many sound companies which could adjust given the time, will be destroyed before they can do so.

2.3 The "crisis of belief" is here

2.3.1 The "crisis of belief", predicted in our paper of 19 June on the Pay Round Debate, has now started. There are growing doubts among our most loyal supporters about both the resolution and the competence of this Government. There is a growing concern that it is a Government of strong words but inadequate action.

2.3.2 Loss of confidence and morale is infectious, both inside and outside Government. People stop trying - and this will include Ministers, civil servants, back-benchers - if they sense that the Government has lost its sense of direction. There is a danger that we move into the "recrimination phase", familiar in business, where everyone starts to blame everyone else. Muddle leads to demoralisation and poor performance; leading in turn to further muddle.

2.4 We can still get back on track

2.4.1 We have about six months in which to get back on track. This does not mean getting back onto the MTFs in number terms, but rather in terms of regaining control of events, ending dissension in Cabinet, and thus convincing the public that we know what we're doing and where we're going. Leave it much later, and we are getting close to the next Election. Key landmarks will be the Budget, PEWP, trade union reform, BSC decisions. As we said in our first Strategy Paper of 12 June 1979, "If we fail to achieve Stabilisation, as our

(2. HOW ARE WE DOING? cont.)

first objective, we can forget the rest. We will simply be on the run till we're chucked out". Despite Labour's disarray, there are many Tory supporters who are beginning to think that we may be on the run, defeated, like previous Governments, by problems which are just too big for us.

2.4.2 We believe it is quite possible to reverse this situation provided we set about it in the right way. But it will not happen by luck; or by making speeches; or by writing papers; or by conventional Cabinet and committee meetings. Nor will determination be enough. The main reason why Governments fail is that they never ask themselves the question "Why do Governments fail?" Understanding the answer to this question is the first step to success.

3. WHY DO GOVERNMENTS FAIL?

3.1 "The Art of the Possible" is not enough

3.1.1 Previous Governments have failed because they practise the politicians' conventional wisdom - the art of the possible. If the only thing that appears to be "politically possible" is failure, they fail. Britain's post-war decline has been caused - or certainly accelerated - by politicians who have never understood what is economically necessary, only what appears to be "possible".

3.1.2 All problem-solving must be tackled within constraints. Some of those constraints are recognised, some are simply taken for granted without question. Big problems are only solved when someone has the imagination and the nerve to break enough of those constraints. Few people seem to understand this.

3.1.3 Strategy is about breaking constraints. Tactics is about operating within them. Without a strategy for breaking constraints, Government finds itself constantly boxed in by constraints which it lacked the foresight to break, so that it simply cannot do what it knows must be done. We are boxed in today because we have been playing noughts and crosses in a game which demands Grand Master chess, for which the opening

(3. WHY DO GOVERNMENTS FAIL? cont.)

moves should have been designed in about 1978 during Policy Search (which was unfortunately a waste of time because the central problem, pay determination, was being handled by another group).

3.2 We had already boxed ourselves in before the General Election

3.2.1 This Government started with three central tasks: the control of public spending, the reduction of the PSBR and the deceleration of monetary growth. By the time we took office, we had already accepted four constraints which stopped us achieving those tasks. We were committed to Clegg and comparability; we had promised tax cuts; and we were pledged to maintain full indexing of social security. In addition, there was a time delay before any new trade union legislation could be effective. We were thus in a "policy box" before we began:

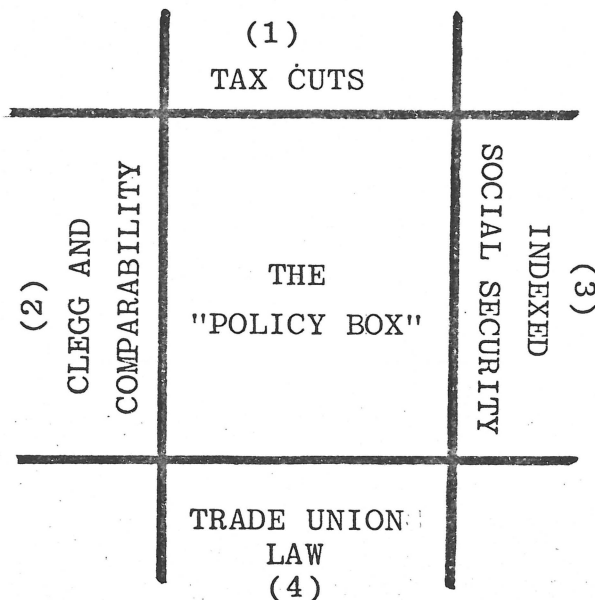


FIGURE 1

3.2.2 We created this box because it "wasn't politically possible" to do anything else. We did not, during 1978-9, have the type of strategic discussion which might have led us to a

(3. WHY DO GOVERNMENTS FAIL? cont.)

different conclusion; although, in our paper of 8 November 1978, we did present the likely outcome of different combinations of trade union law and bargaining systems, the aim being to work towards the bottom right-hand box in which a tighter legal framework, together with monetary and fiscal discipline and greater involvement of employees in the wealth-creating process would start a fundamental change of direction:

UNION POLICY	Union Status Quo = 'Militants Charter'	Balanced Bargaining Power = 'Moderates Charter'
PAY POLICY		
Monetary and fiscal Discipline + Traditional Collective Bargaining	Economic disintegration	Greater stability but unchanged economic attitudes
Monetary and fiscal Discipline + Output-Related Bargain- ing (ORB)	Union Activists wreck ORB. Therefore.....	Stability + incentives = <u>New Attitudes</u>

This is what we asked for - what we got.

FIGURE 2

3.2.3 Given these constraints, something had to give. Since it was not the constraints, it had to be the strategy. It was because we could see no solution inside the box that we suggested that a freeze - whether partially-indexed or total, whether in the whole economy or in the public services only - should be at least considered (our paper of 12 June 1979) as one possible way (discussion might have thrown up others) of breaking constraints (2) and (3), and thus reducing inflation with less damage to the economy.

(3. WHY DO GOVERNMENTS FAIL? cont.)

3.3 A proper strategy is still not enough

- 3.3.1 Even if we had developed on paper a strategy which broke enough constraints to make our job possible, it is unlikely that we would have been (or will in future be) able to implement it.
- 3.3.2 This is because the machinery of Government is not suited to achieving change. It is not naturally innovative nor, in organisational terms, is it "task-orientated". There seems to be no systematic process for learning from past mistakes (we saw this as the machine started to tackle the IT project in a conventional way, which was doomed to fail). It lacks the skills, structure - and also the confidence bred by successful achievement. It is imbued with a deep conviction that nothing will really change and that the problems are not really soluble. In our view, this is as much the fault of politicians in past Governments as it is the fault of the Civil Service. The media are also part of this problem.
- 3.3.3 One thing is certain. There is no possibility of real change in society and in public attitudes - and thus in either economic performance or social behaviour - when the citizen's comment on Whitehall and Westminster is "Plus ça change . . .". We comment further on this problem in Section 5.2 below.

4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM

4.1 There are three inter-related problems:

- (1) A short-term Stabilisation problem - summed up in the words "You can't get there from here"; needing turn-around measures.
- (2) A North Sea oil/exchange rate problem - forcing on the economy a much faster adjustment than anyone had expected or than some fundamentally viable parts of the private sector may be able to stand; perhaps needing greater fiscal switch.

(4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM, cont.) 9

- (3) A long-term problem of secular decline - the multi-causal historical/cultural decline of the UK economy, aggravated by a failure of elementary housekeeping by post-war Governments; needing comprehensive array of "Accelerators" and radical reforms.

Before the Election, we recognised - though rather superficially - Problems (1) and (3). Problem (2) is a more recent arrival which makes the first Problem, Stabilisation, much more difficult.

4.2 What does Stabilisation really mean?

- 4.2.1 In our first paper, "Government Strategy" of 12 June 1979, we suggested that Stabilisation was the main task for the first five years. Unless that was achieved, lasting economic recovery would be impossible " . . . like trying to pitch a tent in the middle of a landslide".
- 4.2.2 We argued that Stabilisation was a massively complex job, requiring the achievement of three inter-related objectives: ending inflation, by monetary policy; rational pay bargaining, by trade union reform and employee involvement; control of Government spending. We suggested that these were the three necessary, but not sufficient, conditions for stability and that they would take a full five years to achieve; and that our communications would therefore have to change, at the electoral margin, the criteria by which our performance was evaluated by the voters. We represented them as a simple diagram (see Figure 3 overleaf).
- 4.2.3 Stabilisation is crucial but difficult for a simple reason. The institutional structure of the economy makes it inherently unstable. This in turn has made the task of successive Governments impossible. Each Government has arrived pledged to rebuild the economic structure only to find that the structure is, as it were, on fire. It is not possible to commence renovation until the fire has been put out. But putting the fire out itself has turned out to be impossible because of

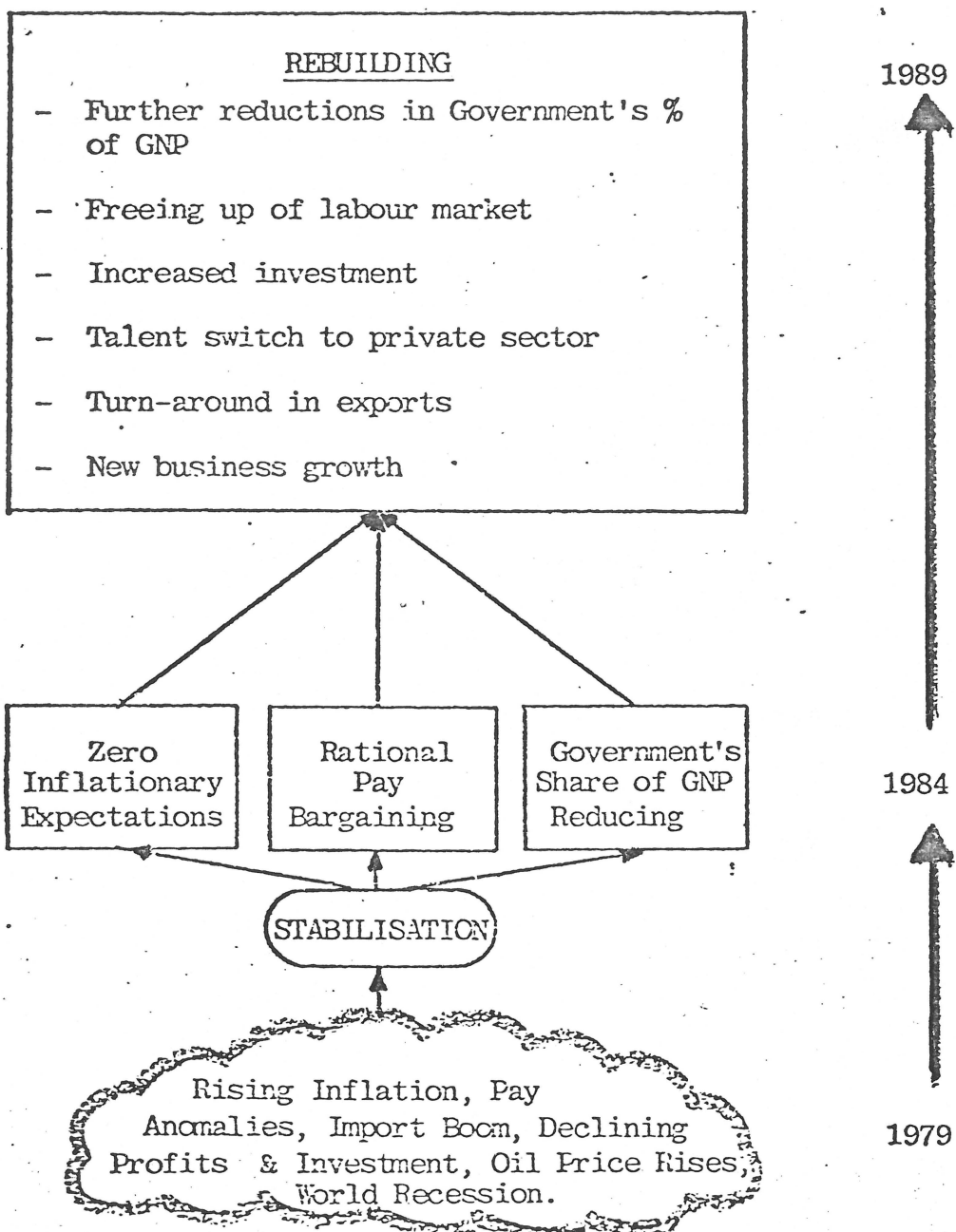


FIGURE 3

(4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM, cont.)

its ability to fan its own flames. Whatever analogy you like to use - whether fire-fighting, turn-around, "getting from here to there" - it is this first phase which has defeated every Government since 1964. So far, it is defeating us. It is the high pound which is bringing down inflation, not our policies. The accompanying recession is not a sustainable long-term solution.

4.2.4 The structure of the instability problem can be presented as follows:

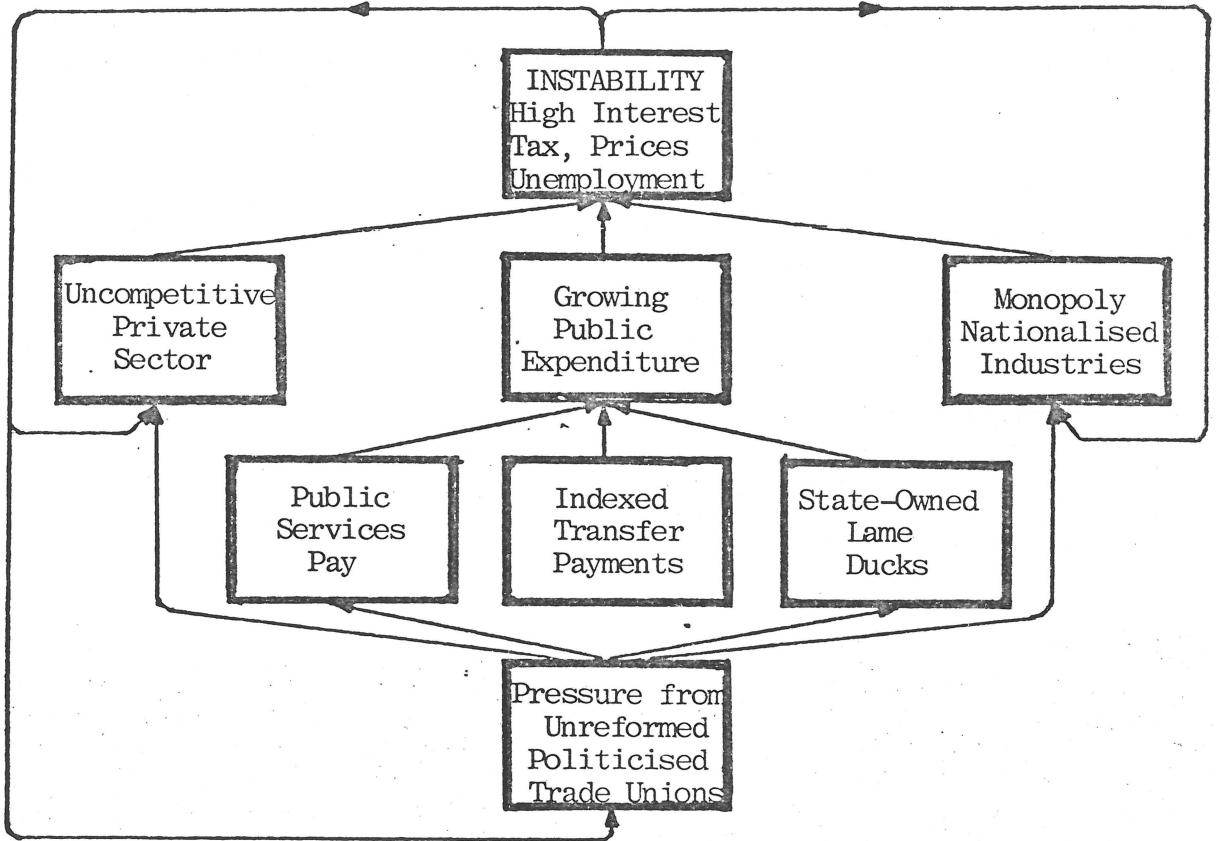


FIGURE 4

It is the interaction between the components of this system which gives the whole process its power and momentum. As a result, it makes mincemeat of successive Governments' economic

(4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM, cont.)

policies. With this central instability, the UK economy simply cannot function properly. In bad times (recession or an external shock like OPEC) it starts to fall apart. In good times, it continues to drop slowly out of the Western industrial world. The system must be redesigned if recovery is to be possible. Improved methods of monetary control are only a small part of the answer, though no doubt an essential one.

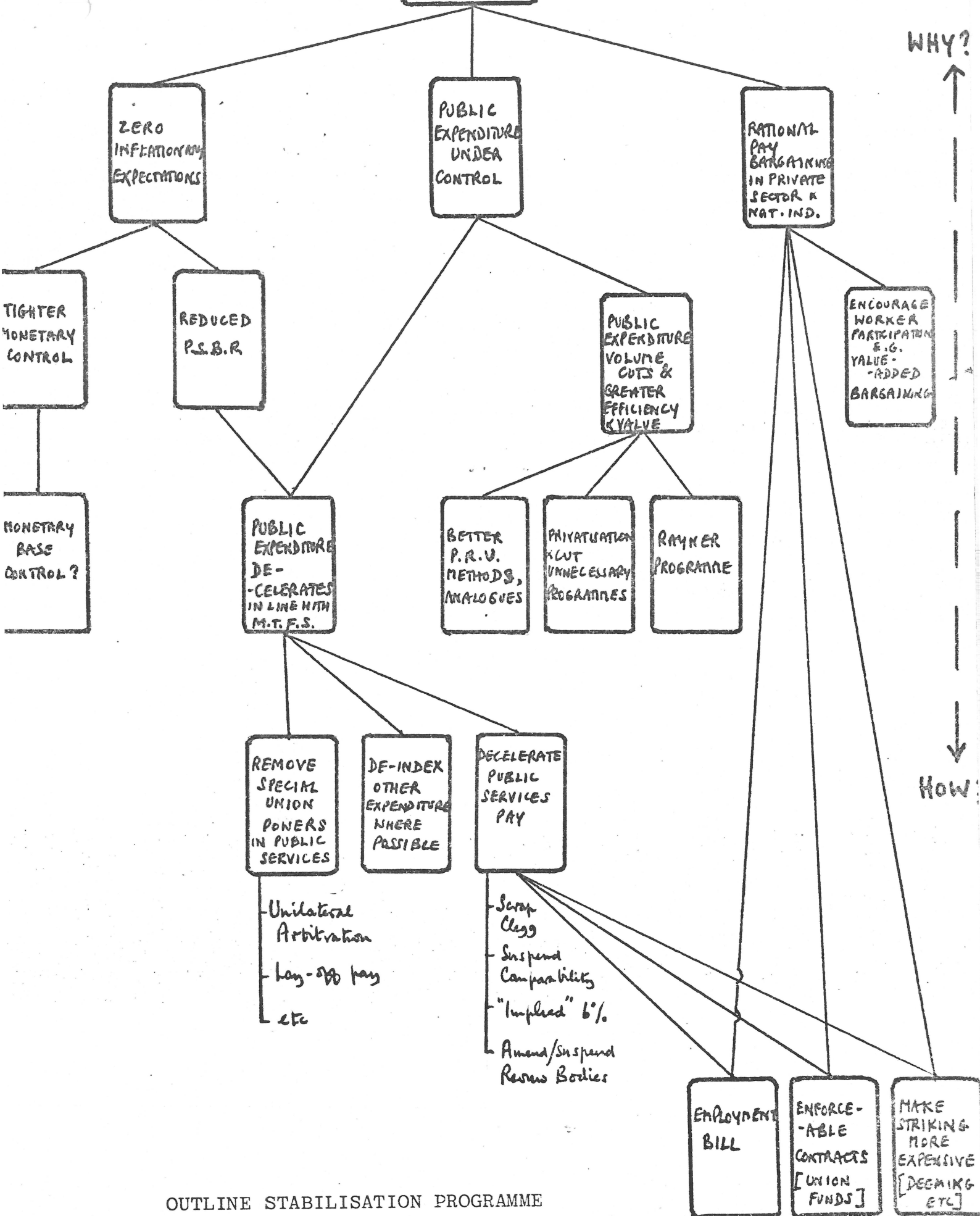
4.2.5 Because colleagues never understood this basic problem, it has not been possible to develop a strategy for solving it. The MTFS was not a strategy, but an indispensable public statement of objectives. There was never an explicit programme of action to show how we were going to make MTFS happen, in terms of public services pay, and thus public spending, thus the PSBR. As long as that was (and is) the case, arguments about the best mechanism for monetary control will remain fairly academic. Once spending and borrowing are down, then it will still be important to get the best possible system of monetary control.

4.2.6 In the light of our experience over the past 18 months, we can now break the three Stabilisation objectives, shown in Figure 3 on page 9, into a more comprehensive and structured programme. (See Figure 5 overleaf.) But it is still important to remember that achieving all the tasks on this "Christmas tree" does no more than establish the foundations for recovery. At most, it changes the UK economy from one which can't recover to one which, given other actions, just might.

4.3 Long-term recovery

4.3.1 If we had developed a proper strategy for Stabilisation and were now on target with the MTFS (adjusted to reflect the bottom of the trade cycle) we would now be able to shift our attention to the medium term. For example:

- The need for a substantial and self-sustaining shift from pay/spending to profits/investment.



OUTLINE STABILISATION PROGRAMME
FOR YEARS 1 & 2
FIGURE 5

(4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM, cont.)

- Developing, and building into the system, the Rayner methodology, together with a further squeeze on public spending when the upturn comes (just the moment when Governments tend to relax; it needs to be sold for 18 months ahead so that the public are ready for it).
- Sustained education in economic reality, so that, at the margin, voters at the next Election judge our performance by more realistic criteria.
- Making sure that the Government gets the real growth industry of the future - information technology - off to a flying start. (We have - perhaps - managed to prevent this running into the sand before it starts.)
- The beginnings of more radical thinking about NHS, education, etc.
- Greater urgency to the "Accelerator" programme (MISC 14/15).
- Constitutional reforms to safeguard the country against extremist politics in the future.

All this should be built into a coherent and impressive forward-looking programme to give weight to the 1983/4 Election Manifesto.

- 4.3.2 In addition, we would still need to introduce further fundamental reforms for the trade unions. Unless we do that, we shall always have to choose between recurring inflation followed by slump; or else an economy running in a state of permanent recession with the public sector as the only growth area (ie what we are doing at the moment). Unless trade union power is reduced, the corporate sector cannot rebuild its profits, public services pay cannot be curbed, nationalised industries will continue to raise their prices faster than inflation. The measure of our immediate problem

(4. THE CABINET STILL DOESN'T UNDERSTAND THE PROBLEM, cont.) 15

is that in three years we have not produced a team which really understands what has to be done.

5. BREAKING OUT

5.1 Official papers and Cabinet Committees are not enough

5.1.1 The conventional Westminster-Whitehall practice is inappropriate for a state of economic emergency. It does not distinguish those aspects of policy which are crucial to the turn-around task (eg the tasks on the "Christmas tree" in Figure 5). To overworked Ministers, all issues begin to look equal. (Indeed, given sufficient pressure and stress, all stimuli are eventually equal.)

5.1.2 Westminster-Whitehall conventional wisdom reflects the "art of the possible". It does not recognise that, in crisis, the key to success is to break constraints rather than accommodate to them. Even if it did, constraints cannot be broken around the Cabinet table, where that same conventional wisdom is seen as evidence of the essential experience needed for high office (much as the experience of generals "fighting the last war" is over-valued). There can be no "new data" and therefore no changes of mind, because new ideas, different people and fresh experience never penetrate these discussions. ?

5.1.3 We have been, and are still being, boxed in by the familiar constraints which have defeated previous Governments. For example:

- (1) "We can't break our commitments on indexing social security."
- (2) "We can't move faster on trade union reform without being thrown out of office by civil uproar."
- (3) "We can't let industry bear the brunt after the personal sector has done so well!" But:

(5. BREAKING OUT, cont.)

(5.1.3 (4) "We can't raise direct taxes in view of our Manifesto pledges, especially as we've already reduced them."

(5) "We can't finance even sensible investment by nationalised industries outside the PSBR."

(6) "We can never win against the miners."

(7) "We can't bring fresh blood into the top of the Civil Service."

(8) "We can't liquidate state-owned lame ducks because of the PSBR impact."

(9) "We can't find the time to work out how to break any of these constraints."

Acceptance of these constraints is tantamount to saying: "On reflection, we've decided we can't succeed". If we were fighting a military, rather than an economic, war of survival, we would find ways of breaking such constraints inside a week. A business facing bankruptcy would do likewise. Constraints are broken quickly enough once the whole management team recognises the alternative.

Each of these constraints is breakable provided we have:

- (a) Convinced all the colleagues that it has to be broken.
- (b) Charged an individual, with the authority and resources, to find a way of breaking it - or else.
- (c) Set up the right political communications to gain public acceptance.
- (d) Set these things in motion in time (because strategic thinking alerted us early enough, to their importance).

We shd worry a good deal less about the PSBR as such. Whether investment counts against the PSBR or not doesn't alter the underlying point that it makes claims for finance & real resources; can these be met consistently with sensible monetary control & avoiding stoking up inflation?

(5. BREAKING OUT, cont.)

5.2 Organise to achieve tasks, not to run hierarchies

5.2.1 Once the central turn-around problem is understood, then the tasks to be performed become clear. Once the tasks are clear (for example, breaking certain of the constraints in 5.1.3 above might form key tasks, but there will be many others) the traditional Whitehall approach (part-time, non-dedicated committees) is hopeless; good people, whether from within or outside the system, make little difference. The only way to achieve an important strategic task (by definition complicated and trans-departmental) is to give it to a task force, led by someone who is given clear objectives and motivated to succeed. Only task-organisation brings people together on a "results-orientated" basis for long enough to allow them to shelve departmental loyalties and the distractions of other work. (Anyone who reacts to this by saying that Whitehall can't work that way is accepting without question one of the conventional constraints.)

5.2.2 With the proper organisation to achieve the tasks that matter, goes the proper use of time: time in diary terms in order to think, discuss and plan; lead time needed to remove political constraints. (For example, we had a full year in which to prepare colleagues and the public for de-indexing, but never used it.) There will always be a limited amount of time, talent, experience which must be concentrated on the tasks that really matter. Otherwise we go on doing what Governments always tend to do: a little bit of everything, but none of it good enough or sufficiently constraint-breaking to make any difference.

NOONE HAS
EVER
DECIDED TO
DO IT

5.3 We must start communicating

5.3.1 A second five-year term is essential for the strategy and thus for the country. We will only get it if voters recognise that this Government is qualitatively different from its predecessors. If they feel that, after all the hopes of 1979, we are really no different, no more

(5. BREAKING OUT, cont.)

competent, imaginative or determined than earlier Governments, then we shall be judged on the straight indicators of living standards and inflation, and could well be defeated.

5.3.2 Although great effort goes into speeches etc, all the feedback is that we are not communicating successfully. Everyone we talk to says that the Government does not explain why it is doing what it is doing; that people are unpersuaded that the sacrifices are going to lead anywhere; that the Government shows no signs of an adequate grasp of the problem and what national recovery really entails; that you personally should speak more often on television to educate and explain; that we have no "fast response" system for demolishing Labour's misleading propaganda.

5.3.3. None of this is surprising. Because we have only a sketchy outline of a strategy for turn-around, so we have no strategy at all for communicating that turn-around strategy. Despite all the talking and writing about communications in Opposition, we have not begun to put it into practice. If we go back to the original Stepping Stones paper, we said that any Government which was to have a chance of achieving an economic miracle (for that is what it has to be) will need to develop:

- (1) a shared understanding of the UK problem, as a prerequisite for developing the -
- (2) turn-around policies, which must be assembled into -
- (3) a turn-around strategy for both policy and communications - they cannot be separated. The supporting communications strategy must be based on an understanding of -
- (4) the nature of the communications process.

(5. BREAKING OUT, cont.)

Since we have scarcely achieved (1) above, it is not surprising that we have not yet started on (3) and (4).

5.3.4 We have a great advantage over Labour, because we can develop and present a coherent and convincing strategy, whereas they cannot. But we are not yet exploiting that advantage. It is essential that we do so between now and the next Election.

5.4 Is it worth the effort?

5.4.1 All this is difficult and time-consuming. It is the sort of work whose value cannot be appreciated until it has been done. It is the difference between successful and unsuccessful companies and, we would guess, part of the difference between, say, the French Government machine and our own.

5.4.2 The question is whether colleagues and officials can be persuaded to change. There is no possibility that, without changing their own method of working, Ministers and officials can somehow become superlatively effective, where before their performance was mediocre.

5.4.3 The initial investment of effort, in order to define the Government's position, aims and programme of action was never made by this Government, nor of course by its predecessors. (We attach at Annex A an interesting letter about the Labour Party's experience, much of it relevant to us.) This "strategic investment" is precisely analogous to building any other productive asset like a factory or a power station. You have to invest resources, time and effort, to build it, and further resources to learn how to operate it. Because it takes effort and because it cannot produce instant results, the temptation to put it off and argue that it is unnecessary is very powerful. But it catches up with us in the end. What we are now doing, as a Government, is working overtime to try to get "output" from something we never built in the first place.

6. CONCLUSION

6.1 This paper poses the following questions:

- (1) Are you satisfied that the Government's central strategy is going well enough?
- (2) If not - is this due to lack of clear objectives, or lack of an adequate strategy, or failure to implement the strategy?
- (3) If strategy or implementation are at fault - do you believe that colleagues and officials can put it right?
- (4) If so - will they do it by trying harder? Or by starting all over again? Or by working in a different way? Or some combination of these?
- (5) If putting it right requires working in a different way - where will this new way come from?

6.2 Out of the 90-odd Ministers and 1,000 officials representing the apex of the Government machine, there can be no more than about ten (the Policy Unit plus a proportion of CPRS' effort) working in a strategic way:

- trying to identify the make-or-break issues
- thinking ahead in time
- thinking across Departments
- trying to integrate policy and political communications.

How can we focus the massive intellectual resources of Whitehall to support and implement this kind of thinking?

6.3 There are scarcely a dozen politically appointed outsiders in the whole of Whitehall. We believe they could be used as

(6. CONCLUSION, cont.)

"change agents" (the term used by Norman Strauss in 1976 when he warned you that the existing Westminster-Whitehall system was bound to fail). I am thinking particularly here of political advisers with business experience in getting things done - Derek Rayner, Robin Ibbs, David Young and ourselves. (But the numbers are still miniscule.)

6.4 About every six months since mid-1978, we have come back to you on this central question of the sheer scale of the UK problem and the complete inadequacy of our organisation and our mode of operation for solving it. We have done so, with increasing emphasis since December 1979 on the need for a "shock" approach to get back on track, rather than a gradualist approach, because time is getting short.

6.5 Proposed next step

6.5.1 New insights, understanding, ideas emerge from discussion and argument, not from reading papers. I would like to propose a half-day informal discussion in the New Year, probably over a weekend. This would involve yourself and perhaps a few other colleagues, together with Robin Ibbs, Derek Rayner (if he is still available), David Young, David Wolfson, Norman and myself.

6.5.2 Our aim would be to convince you that colleagues can operate as a more effective and united team, if they can be persuaded to work in a different way. If we cannot persuade you that the effort to change would pay off, then we will drop the subject and revert to our normal role of "doing our best" within the constraints of Whitehall convention and the "art of the possible".

22

Guardian 10/12/80

LETTERS:

ANNEX A

The restricted vision of the Fabian Committee

Sir.—It is a pity that the Fabian Committee on which Malcolm Dean reported in *Society Tomorrow* (November 26) has “intentionally avoided looking at policies and policy making in opposition.” For in my view, as a fellow ex-special adviser, that is at the heart of our “machinery of government” problem. In other words, failures in government are mainly due to failures in opposition.

I am by instinct a Prime Ministerialist. Without strong central direction most governments will fall victim to the sins of excessive departmentalism — blinkered outlooks, service loyalties, and the dominance of personal ambitions. Experience suggests that this risk applies as much to ministers as officials. It is no basis for determining public expenditure priorities or carrying through radical programmes of social reform.

But of more fundamental importance than increasing the powers of the prime minister is that a government possesses a credible and coherent overall strategy

which can carry opinion both in its party and the country as a whole.

The last Labour Government did in time develop a workable strategy. But that was only after its capacity for success had been gravely weakened by great internal trauma, and a disastrous period of drift for the first eighteen months of office, which greatly magnified the problems it had ultimately to face.

Labour's 1974 manifestos were a positive hindrance in working out such a strategy. They set impossible objectives. The real culprits for any failures of achievement were not half hearted and muddled ministers, outwitted by determined and sophisticated civil servants — but the authors of these documents and the processes by which they were written.

How might these processes be improved?

First there is a shortage of good independent advice on which political parties can draw in framing their policies. A well-known contrast between Britain and the United States is the absence

in this country of adequate “policy research” — Brookings Institutions et al.

Most British academics are more interested in writing learned articles to gain the esteem of their fellows, than winning the notice of the real world. Bodies such as the NIESR and PSI do exist — but they are weak in resources, coverage and impact.

Most policy analysis tends to be “in-house.” Although departments and government agencies now publish far more of this work than they once did, the process of clearing reports round bureaucracies tends to result in intellectual flabbiness, avoidance of harsh dilemmas and obeisance to the prejudices of the government of the day. Change here requires public and private funding of new types of research institution and a Whitehall more self-confidently open in interchange of information, ideas and personnel.

Secondly far-reaching reform of our political parties is an issue of the greatest urgency. Certainly on the

Labour side policy making is a shambles.

Our research department lacks the capacity not only to carry out a major rethink of policy principles — but also to develop and argue practical solutions to a degree of robustness which can withstand the sheer competence of an incoming minister's first civil service brief. State funding of political parties is a necessary but not sufficient condition for overcoming this weakness.

The sub-committees which initiate Labour policy are overdominated by producer interests which in many cases are irreconcilable. All too often refuge is sought in the phraseology of fudge — for example, “coordinated and integrated” transport and energy policies. Fundamental issues are left unresolved and maybe even unmentionable, as in the classic case of incomes policy from 1970 to 1974.

Worse still, Labour's policies are in practice determined by one set of people (the National Executive) for implementation by another

(Labour ministers). This combination of chronic weakness in policy making and bipolarity in power structure puts Labour ministers in an impossible position. On assuming office they are confronted with party policies they have rarely had any say in drawing up

Of course, the best ministers in such circumstances attempt to work out their own policies, building as far as possible on the party's general aspirations. Doubtless there are many changes in the machinery of government — more special advisers, ministerial involvement in top official appointments, more effective units analysing long-term policy options — which would make this task easier. And any of these changes are worth consideration in themselves. But wouldn't it be better to start with seeing what we can do about the real problem — the failure of our political system to produce coherent programmes which can form the basis for effective government?

Roger Liddle.
Cuthbert Road, London SE11.

SECRET

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Sir Geoffrey Howe

1. As I mentioned this morning I think that your draft manuscript Minute to the Prime Minister ought to end on a more positive note.
2. I think that you might gather together some of John's thoughts in a final paragraph along the following lines:-

We must:-

- (a) persevere with the deceleration of monetary growth, despite the setbacks of the first nineteen months.
- (b) return to the battle over the level of public spending, including de-indexation.
- (c) renew the attempt to get Cabinet approval for a more fundamental reform of trade union priveleges.
- (d) carry out a thorough going review of our defence commitments (a new Secretary of State?).
- (e) pursue a more vigorous policy of de-monopolising the nationalised industries.
- (f) persevere with the squeeze on public sector pay.

Ian Gow

31st December 1980



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PRIME MINISTER

GOVERNMENT STRATEGY

It may be useful to let you have my post-holiday-thinking reaction to John Hoskyns' gloomy, but not unhelpful, minute of 22 December. I found it useful to read it alongside the note which Ray Whitney brought back from USA, entitled "Avoiding a GOP economic Dunkirk": you will be disconcerted, as I was, to find the transatlantic commentators referring to "Thatcherisation" as a condition to be avoided, if possible!

2. That is too gloomy a view. So is John Hoskyns - I suspect almost deliberately, and perhaps rightly - with his piece of provocative pessimism. Personally, I am sure we are not off track: but we are less well on track - and less far down the track - than either of us would have wanted. It is no good reacting (as John Hoskyns half invites us to do) by protesting that "we shouldn't be starting from here". We have started; and we're not still "here", we are part of the way towards "there": the question now is how to move further, and faster, in that direction.

3. The problem has various components. Industrially and economically we are a relatively backward nation, and becoming more so. (I am tempted to protest by pointing to "the good bits": but I remember your sense of shock at discovering that Belgium plans to sell more steel next year than BSC, etc. etc.) This backwardness is



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barely realised; and then only by a minority. Those who do realise would like to think it was possible to get things right. From time to time, they try to do so. Not hard enough, not long enough. Because life's still quite comfortable, really. And most people have got used to "lack of success" (more comfortable than "failure"). So "let's try, by all means: but always keep our options open" - and end up (as the American document says) with "parochial fire-fighting as usual, in response to constituency distress".

4. Those are the weaknesses. But there is a strength. And that, basically, is the Thatcher factor. People do have a sense that this Government - more particularly you - does see some of these things, and is possessed of a tenacity, which might just work, if only its sustained. After all it does seem to have worked, after a fashion which is unusual for Britain in recent decades, in Rhodesia, the EEC - even Ulster. But people are slightly scared, many of them, because we haven't convinced enough of them that we know what we're doing, and that we're totally confident of reaching our destination - which anyway is a long way away. And more than a few people think we're quite mad! Yet very few are able or willing to proffer an alternative analysis of Britain's problems, let alone a coherent alternative solution. So we still have a lot more support than we might have expected. And even the sceptics would like to see us doing well.

5. So we do have to renew and strengthen our thrust, and give it greater coherence - by doing two things:

(a) Ensuring that we concentrate the maximum of talent on the fight for a relatively limited number of objectives;



(b) Consciously planning to broaden the base of committed and active support for the difficult things that will have to be done in pursuit of those limited objectives.

I stress point (b); we cannot take too much trouble over carrying with us those who should be on natural allies - in the city, the civil service and industry, as well as in politics: they want to see us succeed, to see any Government succeed, after so much disappointment.

6. If I was asked to have a first shot at identifying the key issues, the limited objectives, (and I do not differ much from John Hoskyns' section 4.3), I should pick the following:

(a) The whole business of reducing inflationary expectations, the indexation mentality, the cost-plus society;

(b) The removal of those factors - throughout the public sector - which in the American sentence, have made "the federal budget ... an automatic 'coast-to-coast soup line' that dispenses remedial aid with almost reckless abandon;

(c) The further, substantial, curtailment of the impossible power of "organised" labour - alongside a major extension to employee involvement.

(d) A major change in the relative status, rewards and security of innovators, entrepreneurs, risk-takers on the one hand and of coasting, competent, comfortable survivors on the other.



7. And if I was asked to advise how - differently from what's happened so far - to develop our approach towards these problems, then certainly I should not differ greatly from John Hoskyns. I suggest these stages:

(a) The half-day discussion proposed in John Hoskyns paragraph 6.5.1; I could suggest names; some compact papers would be desirable.

(b) An exercise - perhaps another larger group discussion, perhaps a series of bilaterals, perhaps both - in which you should secure the commitment of all key colleagues to a limited programme, along the lines discussed above.

(c) The execution of the measures proposed - possibly through, or with the help of, a small group of task-forces, comprising outsiders as well as Minister, civil servants. (I am less certain than John Hoskyns about these. If we did go along those lines, then these task-forces should be designed almost as much to maximize support for what was going on as to get it done.)

8. We still face formidable tasks. We have made a start - but only a start. To carry things through to the next stage, we need a considered plan - and soon. The hopes of very many people are still with us.

9. I am copying this minute to Keith Joseph and John Hoskyns.

Wiggie

fr (G.H.)

31 December 1980

(Prepared by the Chancellor & signed in his absence)



13 JAN 1981

10 DOWNING STREET

12 January 1981

The Rt Hon The Lord Thorneycroft CH
Chairman
The Conservative Party
32 Smith Square
LONDON
SW1P 3HH

Dear Peter,

Many thanks indeed for your most helpful comments on our Strategy paper. I take most of the points you make and am in agreement with them.

Perhaps I could respond to some of your comments (the numbers are your paragraph numbers):

2. I certainly don't advocate a major reform of Whitehall as a precondition for attempting to do anything else. But I am quite convinced that the way in which Whitehall and Westminster at present operate has a great deal to do with our inability to get to grips with problems over the last 20 years.
4. In broad terms, I agree that there are no great mysteries about what we are trying to do. But when one takes each part of the problem and asks how to solve it, one comes up with a further list of things to be done. Each of those then has to be similarly broken down and so the working out of "what" and "how" becomes fairly complex. When we add to this the constraints which make it so difficult to find an answer to the "how", our experience is that the Whitehall committees are not effective. The Ministers don't have the time. The officials spend their time in dribs and drabs on different committees dealing with different problems - all of them accepting, without even realising it, constraints which they assume have been accepted by their Ministers. With all this "multiplexing", to use the computer jargon, and no fresh outside advice, these committees seem simply to go round a familiar course satisfying themselves that there are no more answers to the problems today than there were when they were last asked to look at the problem a year or two ago.
6. I certainly did not mean to convey "black despair", only brutal realism, about how far we have to go. I think there is often the worry, in internal policy papers, that too much frankness about the size of the problem will somehow communicate itself to the outside world. To some extent, I am more worried about premature optimism emanating from political figures, which

clashes so violently with what is seen to be happening in the real world, that the politicians are simply seen to be out of touch. We have to be very careful about the timing of that optimism. Correctly timed, it reflects the beginning of a sense of the upturn. Done too early, it could look ridiculous.

- 9. I agree very much with what you say. Our greatest worry is that we could in fact have won this argument, and indeed have even begun to show the results, but not be rewarded, in electoral terms.
- 10. The policy box in our paper was really the box we were in immediately after the Election. Your box certainly summarises the present situation. In fact, every part of the problem will be addressed within some sort of a box because there are constraints which affect the solution to every problem.
- 10(1) I agree very much with the last 6 lines of this section. We are not doing enough at the moment to explain the nature of our problem, how much of it is outside our own control (eg OPEC as you say). Better to show what the problem is and that it is perhaps insoluble, than say nothing.
- 10(2) I agree with the points you make. The question really is whether it is possible to get an understanding with the unions. I feel that management can only hold onto the authority they need to run their operations provided bargaining balance is right. I agree that productivity and the removal of restrictive practices are more important than wages - though of course they are themselves the cause of low wages and thus, indirectly, of pressures for higher wages, which cannot in fact be met except by higher prices. Although shop stewards and union officials are less belligerent during recession, their statements suggest that there is not even the beginning of an understanding about economics, about where the wealth of their members comes from; simply a realism that they are not at present unbeatable in their war against management. But my judgment is that most of them, with a lifetime in the Labour Movement, are virtually incapable of doing anything but those wealth-destroying things which remain within their limited and irrelevant repertoire. The results of 1974-9, where there were many "understandings" and a Government with a very close relationship with the trade unions, is not encouraging.
- 10(3) I agree absolutely with your analysis. If we are not able to make tough decisions on, for example, BL and BSC in the coming months, I don't think we shall be able to between now and the next Election. The tough decisions would of course cost more in the short term, but opinion research might show that they would be electorally more popular than we realise. Alan Walters has already suggested - with some supporting arithmetic - that if for example the closure of BL led to even a miniscule reduction in pay increases in the rest of the economy, those reductions would quickly lead to more than enough additional employment to offset the direct unemployment from closing BL. This is where we come back to the point you make in your paragraphs 3 and 5 - the need for understanding and political will in Cabinet.

- 11. The Prime Minister has agreed to a half-day at Chequers on 17 January, together with Geoffrey Howe and Keith Joseph, to discuss the paper in more detail with ourselves, Robin Ibbes and David Young. The main difficulty I anticipate is on persuading the Prime Minister of the need for greater involvement of all the Cabinet colleagues in understanding the problem and agreeing what is necessary to solve it.

More generally, the point that comes through strongly in your note is that the count-down for the next Election has now just about started. Your paragraph 8 is an excellent summary of the qualitative difference between what we are offering and what Labour is offering, and I think we shall have to start emphasising that increasingly.

Perhaps I could come and see you after the 17 January meeting and tell you how I think we have got on. I am copying this letter to Alan Howarth.

Yours truly



JOHN HOSKYNS

From
THE CHAIRMAN OF THE PARTY

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

The Rt. Hon. The Lord Thorneycroft C.H.

Telephone: 01-222 9000

POLICY UNIT PAPER

1. There is much good in this paper and one does not dissent from the analysis of issues which have to be resolved or constraints which have to be at the very least adjusted if we are to show the possibility of success in the time scale available.
2. I am however worried by the methodology. If one starts from the point of saying that the problems cannot be resolved within the existing Governmental and Whitehall structures, one, in effect, presents oneself with a vast task of institutional reform which must precede the effective tackling of the real policy needs. It seems to me to be like a "Stop the World I want to get off" approach.
3. I accept that there is much in Whitehall which might be improved, I do not however accept that there is really anything in Whitehall which would prevent a determined Cabinet getting 80 or 90 per cent of what the Prime Minister deems necessary to do. The fault lies not in structures but in political will and clear agreement on priorities.
4. There remains of course the question as to whether the political prescriptions of the paper are correct. The answer probably is that they are certainly nearer to our requirements than the existing situation. They do seem to me to blur the question as to whether we ought to vary the targets in relation to the depth of the recession, but this in a way is what Professor Walters is about. What does one then do? I do not think that one sets up a series of task forces, or recruits, or asks for a lot of outside advice. Apart from some technical improvements in the workings of monetarist policy there are no great mysteries surrounding the problems which confront us; on the contrary they are only too distressingly simple.
5. In my judgement the decisions we are faced with are political decisions and the right forum for political decisions is the Cabinet. I simply do not accept that we cannot get the Cabinet to understand the issues.

No tinkering with Whitehall, no external advisers, no outside study groups are any substitute whatever for a determined Cabinet agreed on the main lines upon which we seek to tackle the problem. Any other approach is really only a postponement of the decisions. If we fail to find a Cabinet capable of tackling these matters we fail anyway and everywhere.

6. I like the way the paper is argued. It is robust and controversial. Essentially what it says is that in so far as we have met with some success, as indeed we have, this success has been much assisted by outside events and will rapidly be eroded by powerful influences which we have in no way mitigated or harnessed, the moment these outside situations tend to disappear. If I don't accept the black despair of some of the opening passages I certainly accept that much more needs to be done.

7. I also accept that there are constraints, some real and some imaginary, which hedge us in and which both seem to preclude some effective action now, and perhaps even more importantly, effective action in a further changing world scene. I would however put my view of the problems and their presentation rather differently and propose a different course of action.

8. I would start by keeping firmly in view two different worlds, as proposed respectively by the Prime Minister and Michael Foot. Partly because they represent reality and need presenting in a comprehensible way and partly because an agreed platform for a Cabinet is needed when it is asked to take controversial decisions.

<u>The Prime Minister</u>	<i>> Limson</i>	<u>Michael Foot</u>
WEALTH CREATION		CORPORATE STATE
PERSONAL RESPONSIBILITY		GOVERNMENT AID
FREEDOM OF CHOICE		UNILATERAL DISARMAMENT
LIMITED GOVERNMENT		GOVERNMENT CONTROLS
STRONG DEFENCES		GOVERNMENT INVESTMENT
HIGH PRIVATE INVESTMENT		INSULAR APPROACH
HIGH PROFITABILITY		CUT OFF FROM EUROPE
FREE MARKET AVAILABLE IN EUROPE		IMPORT CONTROLS
WORLD MARKET WITHIN G.A.T.T. RULES		

7 + 1/2 hrs: 1/2 hr

*Balance of options
optimistic / pessimistic*

*Lib. 1/2 hr
Unconv
Pub. 1/2 hr
Bismarck
L.A.M. - F.!*

*- Pub. 1/2 hr } → - IN 1/2 hr
- 1/2 hr
- 1/2 hr
- 1/2 hr*

- NON-ECONOM. 1/2 hr

9. We will win on the argument about which world but we could lose if the actual world we live in, is, in 1983, so markedly different from the one that we want that we appear incompetent to achieve our purposes.

10. I see the box in which we tend to be shut a little differently to the Policy Unit. Since I am catching the habit of putting things in boxes,

mine looks like this.

	OPEC and rising energy cost = Recession	
High cost of public sector = a starved private sector and insufficient wealth	CONSERVATIVE POLICY IS NOT WORKING	UNIONS = low productivity
	LACK OF CONFIDENCE = low investment	

I see then the issues, some resolvable, others only partially resolvable or not at all, as follows. I would emphasise that whatever else happens we must at least be seen to know what the issues are and be trying to do something about them.

1) Energy and its price. I consider our major problem to lie in the field of the Foreign Secretary/Secretary for Energy, rather than the Treasury. It is the oil price induced world recession that dominates our economic climate. It is this recession rather than any economic measures here that is responsible for our high levels of unemployment. It is the price level of oil which helps to augment the value of our currency and it is the slump in world markets that makes the necessary application of monetary techniques essential to control inflation, difficult to explain in politically acceptable terms.

I have no doubt that the problem of OPEC has been much discussed in Cabinet, but we need to rehearse again the arguments, the courses open to us, the price we might have to pay to achieve altered policies, the nature of our approach, whether individually as separate nations, or collectively, to an increasingly alarming scene. We have to explain publicly how OPEC decisions reflect upon the levels of employment here. OPEC is central both to our economic and our presentational problems. It may be insoluble but even a public attempt to solve it, even a public presentation of its reality might be better than a discreet and unhelpful silence.

2) Men at the place of work. Our second major problem lies in the attitude of some, though by no means all, Trade Unions in limited but vital areas of the economy. On balance a Trade Union policy of moderation at a time when unemployment is over two million has probably paid off but Trade Union attitudes in a recovering economy might be a very different thing. The

problem is less one of wages and much more one of productivity and restrictive practice.

The productivity of most of our manufacturing units is markedly below that of our competitors. A solution or even a partial solution to this problem is much more important than any other single item of Trade Union reform. It is linked with our archaic system of wage negotiations in both the private and the public sector. An understanding with the Unions in which we left the wider fields of Trade Union reform alone in return for the restoration to management of the power to manage their factories and the introduction of a modernised wage negotiation system would be a very worthwhile achievement.

3) The Public Sector. The public sector, together with its pay and its indexation problems, represents an almost insupportable burden on the private sector. This public sector now represents a voting strength of formidable proportions and may already have reached, or be about to reach a self-perpetuating condition. It generates a Public Sector borrowing requirement of insupportable proportions, it absorbs a vast tax revenue, it pushes up interest rates and increases the inflationary momentum. All major items in this area are sacred cows but we may have to choose between losing the next election with two billion in B.L., X million in Trident, Y million in indexed pensions, or winning it without one or other of these burdens. Whatever our choice is, it were better made fairly soon for we have surely about reached the limit at paring round the edges of this problem. We still just have time to recover from the shock of major surgery if we wish to adopt it.

4. Investment. Depends on CONFIDENCE. What we need is a climate in this country which attracts new investment from abroad as well as at home, designed to exploit a growing world, and importantly, a growing European Market. We need to sell the whole of the U.K. as an investment base with the same energy that we sell a few selected parts of it. With two million unemployed there is certainly scope for such a policy. We need to demonstrate and adjust policy as necessary to do so. We have, or can have, some powerful selling lines, e.g.:

- Self sufficient in Energy.
- Attractively low tax levels.
- Provision of medium term credit on attractive terms.
- Declining interest rates.
- Low energy prices.
- Absence of Government controls.

Speeded up planning decisions.

Free run at European Market.

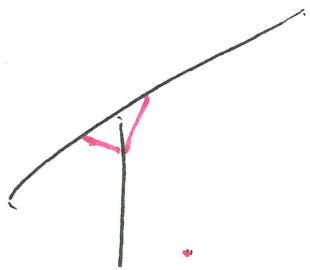
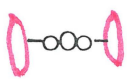
Not all this is true but it could be made so and sold as such, and is the direct opposite of what Labour seeks to do.

11. How Do We Proceed

I think that we need first to publicise the good things that have happened or are happening. How many new jobs created every day? New businesses started. Inflation down. Exports won. Trading account in balance. Even pound strong. This is not the picture of a nation on its uppers.

I think we then want to take each of the four major constraints, OPEC, UNIONS, INVESTMENT, PUBLIC SECTOR, reduce the major options within them to the simplest and briefest terms, and let the Prime Minister seek agreement with her closest colleagues on a package dealing with them. I recognise that the package will be in part for real and in part presentational. We shall however at least be thinking and talking about the real world, we shall be discussing thoughts and themes markedly different from our opponents and we will be seen to be looking at the world in more positive and practical terms than we are perhaps judged to be at present.

12. Some paper of this type needs to be put to Cabinet. We are seen as a party which has been fighting, not altogether unsuccessfully, for sound money. We must continue to do so. But we need much more than buffed up monetary techniques to secure the Prime Minister's basic requirements, and we need much more success much quicker if we are going to hold an adequate majority in 1983/84. I'm for leaving everything else alone, including Whitehall reforms, and going for these main objectives.



PT/CAW
7.1.81

REC	10 JAN 1981
ACTION	M. (R) 467
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PRIME MINISTER

REVIEW OF GOVERNMENT STRATEGY

We are meeting, with Geoffrey and Keith, tomorrow at Chequers. The advisers present will be Robin Ibbs, Alan Walters, David Young, David Wolfson, Norman Strauss and myself. This note gives the background to, and purpose of, the meeting.

BACKGROUND

You will remember that you, David Wolfson and I had a long discussion one evening last spring about the general problems of "mode of operation", with special emphasis on policy-making, the Whitehall machinery, carrying colleagues on difficult issues etc.

During the summer, I discussed the problems of "organisation and method" with other advisers who had experience of the same problems in business, including all those coming tomorrow (except for Alan, who was not on board at that time) and also with Derek Rayner, Terry Burns, Peter Cropper and Peter Middleton.

There was a fair unanimity of views on the issues raised in our "Strategy Paper No.3".

PURPOSE OF THE MEETING

The meeting is NOT for the purpose of solving specific policy problems. (Nothing would be easier than to spend the whole afternoon on BL or the PSBR.) What the meeting is about is finding better ways of structuring the big policy problems, organising our resources to tackle them and ensuring that you are not then hampered by the difficulties of carrying the colleagues with you on the hard decisions.

In other words, the problem we are addressing is not BL, or energy prices, or monetary policy, or PSBR. The problem we are trying to solve (or at least start to solve) is "how to improve Government's performance at problem-solving".

THE FORM OF THE MEETING

I would like to start with a fairly formal presentation by the advisers. This presentation will give you an idea of the way big business would approach the work needed to make the Government strategy happen. It will not be presented as the way to do it (there is no such thing); simply as an approach which may have something to offer.

We can then discuss the approach in more detail, and with relevance to specific problems. But the aim is to invest some effort in problem-solving capability, not to try to solve the problems themselves. Using the analogy from our Strategy paper, we are trying to build a factory to produce good motor cars; not to get the Board of Directors onto the shop floor to assemble the first motor car with their bare hands.

We will bring a few charts with us, ^{tomorrow afternoon} and I think the big table upstairs would probably be the best place, if that suits you.

I am copying this minute to Geoffrey, Keith and the rest of us who are attending the meeting.



JOHN HOSKYNS

CONFIDENTIAL

19 January 1981

EXCHEQUER

Policy Unit

PRIME MINISTER

REC. 20 JAN 1981

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SP 20/11

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STRATEGY MEETING: CHEQUERS

This minute briefly summarises the conclusions reached at our meeting at Chequers on Saturday, 17 January.

The meeting was in two parts. Part 1 was the first half of our original agenda. At the end of part 1, the latest view of the public expenditure and PSBR problem was raised. We then dropped the second half of our agenda and concentrated on this issue in its own right. To use the earlier analogy, therefore, we started by discussing what a (policy-making) factory had to do; ended by preparing to build the first Metro with our own hands. Since it was a rather important Metro, this was no bad thing.

1. PART 1: POLICY-MAKING IN GENERAL

1.1 We put forward two propositions:

- (1) If we can't structure the Government's work - from putting out the fire to winning the Election - we won't understand it, organise ourselves or manage ourselves to do it.
- (2) If we're not organised to do it, policy decisions will be in conflict, colleagues and officials confused, less confident and purposeful.

1.2 We started with a brief review of the major policy areas (Free-up the Labour Market, Control Public Expenditure, Discipline Nationalised Industries, Reduce Inflationary Expectations, Sell the Strategy inside and outside). We then took the first two of these and broke them down in chart form to illustrate the growing complexity and amount of work to be done, and the relative urgency of different specific tasks. Particular emphasis was put on the need to think about "unthinkables" in each main policy area, if we were to get ahead of the problems rather than continue to shoot behind them. A large number of points came up in discussion and we are preparing a separate note of the more important ones.

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1.3 The second part of the agenda was to have been a discussion of the present way in which the Government machine works and its inadequacy for solving very difficult interrelated problems with limited time and brain power. We were proposing to identify some tasks or, as Keith put it, families of problems, which could be addressed by full-time teams with outsiders. The discussion would then have moved onto ideas for ensuring that the Government can get the things it wants, done, through the Civil Service including some possible Civil Service reforms. This would include "Rayner writ large". We were then going to propose, on the lines of Geoffrey's paper, a similar session with some other colleagues - for example Michael Heseltine, John Nott, John Biffen, Patrick Jenkin - and with officials. This might have been followed with a presentation to all or most of E, and the commissioning of some "task teams" to work on particular urgent problems.

2. PART 2: PUBLIC EXPENDITURE AND THE PSBR

- 2.1 We had extensive discussion of the problem. The Treasury is already working on costing different options for solving it; and will also be looking at the use of outside specialists to help design and install better expenditure control systems.
- 2.2 We suggested that the advisers present should work together to examine the problem in its broader context: looking at its effect on the other areas of policy (including those we had already discussed); the "leads and lags" in the steps towards winning the next Election; the explanation of the problem and possible solutions, to colleagues.
- 2.3 We have started work on this with Alan and David here, and will be discussing the results of this work with Robin Ibbs and David Young as soon as possible.

I am copying this note to Geoffrey Howe, Keith Joseph and the other advisers present.



JOHN HOSKYNS

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10 DOWNING STREET

With the compliments of

W. A. SYDNEY



pa

40

A handwritten signature in red ink, appearing to be 'R'.

10 DOWNING STREET

From the Principal Private Secretary

21 January 1981

Presentation of Government Policy

The Prime Minister held a meeting this morning with Lord Thorneycroft, the Chancellor of the Exchequer, the Chancellor of the Duchy, the Chief Secretary and the Financial Secretary to discuss co-ordination between the Government and the Conservative Party on presentation of Government policy.

Lord Thorneycroft said that he had asked for the meeting because the way in which both the Government and the Party were presenting Government policy was causing him concern. This was not just a personal feeling of his but a reflection of views which were being put to him in his contacts with all sections of the Party. At the moment there was a widespread feeling that the Government was not explaining clearly and forcefully enough to the public what they were trying to do and why. People saw the Prime Minister and her Treasury colleagues standing firmly for the Government's strategy but they did not get the feeling that the rest of the Cabinet was united behind them. The impression which the public had was that the Cabinet consisted largely of individual Ministers defending their own Departmental positions. What was needed was a strategy for presenting Government policy; and this, in his view, would require each Cabinet Minister to play his part within the overall framework. He hoped that the Chancellor of the Duchy would be able to develop such a strategy, in consultation with other Ministers and with him. In this way both the Government and the Party would be able to put over to the public as a whole, and to the Party's supporters in particular, a clear and consistent exposition of the Government's policies.

The Chancellor of the Exchequer said that he agreed with Lord Thorneycroft's analysis. The broad message which had to be conveyed should be a balanced one which did not shirk admitting the bad news such as the rising trend of unemployment and the prospective fall in living standards but which also pointed out the encouraging aspects of present policy such as the fall in the rate of inflation which offered hope for the future.

The Chancellor of the Duchy said that he felt strongly that the current presentation of Government policy was inadequate. The country was in a fog about the aims of Government policies and about how the Government intended to achieve them. The public did not understand what the Government was trying to do. He agreed

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with the Chancellor of the Exchequer that we should present the picture as it was - a mixture of problems and good news. At the moment we were not fitting all the pieces into a single, broad framework. He shared Lord Thorneycroft's view that we needed to develop a strategy for the presentation of Government policy, and because this task straddled so many Departmental boundaries, he thought that he would have to take the lead on it, drawing upon the help of his colleagues as necessary. If such a strategy was to be produced, Ministers would have to spend less time than they did now on today's and tomorrow's problems and would have to think much more about the broader, longer term issues. An approach of this kind would not, however, produce results quickly, and he would himself need time to think the problems through and to set action in hand. On a point of detail, he had reservations about the value of the weekend speaking notes for Ministers which his office circulated, and he believed that more might be achieved if he personally tried to direct in a more positive way the line to be taken by Ministers in public on the central issues of the day.

The Chief Secretary said that one of the Government's present handicaps was that the economic Ministers seemed to the public to be somewhat isolated from their colleagues. This was largely because the economic situation was so sensitive and complex that non-economic Ministers were chary about speaking about it. This attitude was understandable but it needed to be overcome. Ministers from all Departments should be encouraged to speak in public on economic subjects.

The Financial Secretary said that he agreed with Lord Thorneycroft and Mr Pym about the public's lack of understanding of what the Government was trying to do. The country needed, above all, to feel that the Government was competent; and being competent meant first, being seen to be united and second, being seen clearly to be on top of the job, whatever the obstacles in the way of achieving the Government's aims. But it was not enough for the Government to appear competent: the language in which Ministers presented Government policy was also crucial, for it was all too easy to use terms in speeches which left people in the kind of fog the Chancellor of the Duchy had mentioned.

In discussion there was agreement that we were not doing enough to get the terms of public debate on Government policy right. Many of the present yard-sticks of success were unfavourable to the Government, and they often reflected an approach to problems which had been overtaken by the march of events. This might well be true of, for example, the yard-sticks against which unemployment was discussed.

The Prime Minister, summing up the discussion, said that they were agreed that the Government's and Party's presentation of Government policy was not altogether satisfactory at present, and a new strategy for the presentation of policy should be worked out as urgently as possible. The Chancellor of the Duchy should take the lead on this, in conjunction with Lord Thorneycroft and consulting his Ministerial colleagues as necessary. One element in this new strategy might be a requirement for more frequent keynote speeches by herself and other senior Ministers in which they could show how all the Government's policies fitted together into a coherent whole. Another element might be the use to be made of major television appearances by Ministers. A fully integrated strategy had underlain the Manifesto, and broadly the same approach was needed now.

/I am

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I am sending a copy of this letter to Lord Thorneycroft. I am also copying it to John Wiggins, Terry Mathews and Stephen Locke. I should be grateful if you and they would handle this letter with due discretion and, so far as possible, avoid copying it.

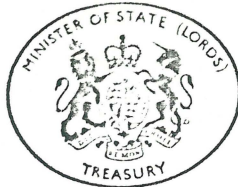
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R.A. Birch, Esq.,
Chancellor of the Duchy of Lancaster's Office.

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B

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22/6/81.

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Mr Ridley
Mr Cropper
Mr Cardona

LORD THORNEYCROFT'S PAPER ON "STRATEGY"

1. It is interesting that in his list of "preferred issues" Lord Thorneycroft does not include inflation. Nor does he mention it in his paper, except in the occasional throw away line.

Nor does he refer to the fact that incomes policy is one of the main planks of the Social Democrats' platform, a policy they share with the Liberals, and indeed one of the very few specific policies, as opposed to vague generalisations, that either of those parties possesses.

2. It would be interesting to know whether this omission of inflation as a major issue is accidental or deliberate. It is possible that Lord Thorneycroft believes that the public at large has got fed up with it: and that in trying to keep it alive as a prime issue we would be blowing on dying embers. A hint, or possibly more than a hint, of this kind of thinking comes out in the Conservative Research Department's paper on Unemployment, appended to Lord Thorneycroft's paper, where "reflation" and "incomes policy" are discussed simply in the context of unemployment.

3. It is possible that Lord Thorneycroft is influenced by the weight of Press opinion which is saying that inflation is bottoming out at about 10% to 12% and that we may soon see it turning up again. We see the same note creeping in in a recent paper by Terry Burns when he said: "there are dangers of some significant deterioration in the inflation prospect over the next 18 months."

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It may be that in these circumstances Lord Thorneycroft's instinct is that in the measurable future - at least until 1984 and beyond - we will be stuck with inflation around 10% and that therefore the less said about it the better. Now Lord Thorneycroft is a man of considerable political instinct: and if this is his view, we need to know it. But we need more than this. We need to know why he thinks this: and what he believes we should do about it.

4. I am myself inclined to go further than this. Irrespective of what answer we may get from Lord Thorneycroft, the conjunction of the approach - or lack of approach - in Lord Thorneycroft's paper with the views expressed by Terry Burns, and the prospect if Terry Burns is right that by end 1982 - three and a half years after the Election - we may still have a rate of inflation exceeding what it was when we came into office and possibly rising, leads me to suggest that we must ask ourselves how such a result could occur: whether we really do know enough about the generation of inflation and the chain of causation: and whether there are practical policies - in the sense of policies that can be made to stick - which would produce a more effective result. The one thing that we can count upon is that the Liberal/SDP coalition will produce such policies: and they will have the immeasurable electoral advantage that they will not have needed to put them to the test.

A.C.

LORD COCKFIELD

22 June 1981

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

CHAIRMAN OF THE PARTY

Rt. Hon. The Lord Thorneycroft C.H.

Telephone: 01-222 9000

STRATEGY

A Draft Paper By Lord Thorneycroft

1. This Parliament must be dissolved not later than May, 1984. This probably implies an Election not later than the Autumn of 1983, and a run-up to it starting in the Summer of 1982. We have no more than two years before we are in a full Election situation.

2. This paper is concerned with the prospects from now until that period starts. What are likely to be the most important issues which confront us? What are the issues upon which we can make the best showing? Where do the main dangers lie? What kind of image do we wish to present and what kind of image do we now seem likely to present as we enter the vital months preceeding the Election? Which parts of the electorate should we consider for particular emphasis and appeal?

3. Obviously much turns on chance and much will be influenced by events as yet unforeseen. Nevertheless it would be a rash Government that failed to chart some kind of critical path towards its election for a second term and make some effort to analyse the problems involved. This paper, prepared in consultation with the Research Department, is a first attempt at such a task. It should be read in conjunction with Mr. Lilley's paper on the unemployment issue (attached).

4. Opinion polls provide a most uncertain guide to electoral prospects. So also do Local Government Elections. Something may well emerge from Warrington as to present attitudes to the Social Democrat Party.

Support for the Social Democrats has dropped over recent weeks. They would appear to have 'peaked' in terms of support in late March and early April. Despite this, the Social Democrats still retain a significant level of apparent support in the electorate and an upsurge of support for them if they manage to develop an effective communication strategy is to be expected. What we do not know at this stage is whether they can translate support shown in opinion polls into votes in the ballot box.

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When the electorate is presented with the idea of a Social Democratic/Liberal alliance almost one-third still claim they would vote for a candidate standing for such an alliance. Again there is a huge gulf between the answer to a hypothetical question and actual votes on election day.

Support for the Liberals, although having fallen slightly since early March, remains higher than at the equivalent point in the 1970-74 Conservative administration.

Results of the 1979 General Election showed a clear division in terms of support between the North and South of England with the Conservative Party tending to become a Southern English Party. This tendency was reinforced by the results of the 1981 Local Government Elections.

Scotland for the Conservative Party has become a disaster area. Opinion polls indicate that our poor level of support at the General Election has since been further eroded.

Although the Warrington by-election is unlikely to provide the victory the Social Democrats want, our performance is unlikely to be outstanding.

The hard fact emerges that as at April, 1981, out of fourteen issues ranging from defence and strikes to education and pensions, in only one, namely law and order, did more of the electorate approve of the Government's record than disapprove.

5. Clearly much turns on developments in other Parties in the months ahead. Much must turn also upon developments within the Conservative Party itself. Given some change of fortune on the economic stage and some continuance of disarray among our political opponents, there is certainly room for hope. Yet we must do more than hope if we are to achieve success.

6. Our main danger at the moment lies in a growing disillusionment among our supporters about our capacity to govern. Whether they are right or wrong in their judgements it is their judgements which will determine their critical voting decisions.

7. We are at the moment judged to some extent upon the gap which exists between what was expected of us in 1979 and what we have achieved. The gap is a wide one and owes much to the sheer scale of the problem that we inherited. Nevertheless this gap is not an electoral asset.

Not just what we inherited - but also what has since befallen the world. See para 8.

We were elected for a change. It was thought that we could check the

spendthrift expenditure, the spiralling inflation, the high levels of unemployment, the drift into indebtedness, the growing abuse of power by the Trade Unions, the numbing weight of the bureaucracy pressing down upon the enterprise of the Nation.

We have done something, but spending is still very high, borrowing is still substantial, unemployment is mounting, Unions remain very willing to abuse their powers, which have only been gently curbed, and enterprise feels crushed beneath a mass of rules, regulations and the burden of Capital and Current Taxation.

8. Whatever else can be said about this scenario, and much of it is due to events like the upsurge of oil prices quite beyond our control, it certainly does not represent of itself a winning situation. It is possible that the recession really will bottom out. It does however seem at the moment to be unlikely that the Conservatives will win the next Election on the simple policies of business as usual, dealing with the odd crisis as it arises and waiting for something to turn up.

9. What then are the courses which now lie open to us? In broad terms there are in theory at least two options.

A) To attempt a change of economic policy. This would indeed be possible and is an option urged in some Conservative quarters. It would be possible to arrange a substantial increase in capital expenditure, to lower interest rates, to organise, preferably in a European context, a much tougher import policy. This package would of course have an inflationary effect; we can be less certain about the number of jobs created, at least in time for the Election; and it would manifestly be a 'U-turn', which is politically unhelpful. I would myself be opposed to such a switch but I do consider that a cold hard look should be taken at it and if it is rejected it should be rejected by a Cabinet that would be quite clear that every member had so decided. Whatever else we do we cannot drift into the next Election with one-third of the Cabinet believing, or being represented as believing, that they had another way of doing things. The S.D.P. have an asset in their unity and relaxed relationship between their leaders, at least in public. (Of course, unity is easy when you have few policies and few responsibilities).

B) Continuing the main theme of the present economic policy while identifying the main areas of criticism and seeking such remedies, and I accept that they are limited, which can be made available. I favour this course partly because I do not believe that any of the changed approaches

mooted by our critics will in any event have very much effect on unemployment which looks like being our principal handicap in 1983. The case of sticking, already strong, is strengthened still further by the weakening of sterling and its effect upon inflation. It may of course be said that we are pursuing this course already. In some sense we are but sound economic measures have little political appeal until the results begin to show and these may be delayed until after 1983. It is not enough in the meantime to behave like a good Lord Mayor of Birmingham in a lean year.

10. During the coming months, therefore, we certainly need a sound economic policy but we need now something more. We need a definite strategy geared more directly to our problems and likely to appeal to our supporters. The art of "politics" is largely a matter of selection and of choice. It is for the Cabinet to select the issues upon which they wish to concentrate attention. Some select themselves from the amount of public interest in them, others are selected by our opponents such as Europe, others are forced upon us such as Local Government Finance. We should, however, in what we say and do make conscious choices directing our public relations towards sections of voters with whom we are particularly concerned. It would be helpful if the Prime Minister nominated a few people to work with the Conservative Research Department in identifying these issues and target areas.

10a. Politics consists in part of demolishing other people's ideas and in part of popularising one's own. We need to take the segments of the disintegrated Labour Party and identify how we differ from the lot.

Essentially the Labour Groups from Jenkins to Benn will be going for equality and appealing to a sense of fairness.

Essentially we will be appealing to liberty and the hope of jobs and of prosperity. Inequality is the price we pay for freedom and for progress, and incidently for the chance effectively to help the weak. We will identify the Labour groups as battling among themselves to carry the banner of Socialism but importantly as representing the essence of the very problems from the past which we set out to cure.

11. A study group working with the Central Office and Research Department needs to identify the preferred issues but for the sake of example I take a short list which might be included for our purposes.

- | | | |
|---------------------|-------------------|---------------------|
| My choice would be: | <u>Enterprise</u> | <u>Europe</u> |
| | <u>Jobs</u> | <u>Defence</u> |
| | <u>Unions</u> | <u>Constitution</u> |

*And what about
inflation?*

12. Enterprise

The Conservative Party is regarded as the Party which believes in Enterprise. It is handicapped if it is not seen to be actively promoting it. It must do so by methods in the main which do not cost money but do help to create jobs.

Large-scale enterprise is still for the most part embarked upon the process of job shedding. It is as a result becoming more efficient and this is all to the good. The large basic industries of the Industrial North provide, however, little help in solving the problems of unemployment. Job creation will continue to be centred in the main on the medium and small manufacturing enterprises and services. This has been the American experience, and we should study it. We have at this moment a network of regulations built up in consultation with the Unions which are a powerful and active deterrent to new employment. A contract of employment is today almost a contract of marriage. In an uncertain world employers, particularly smaller employers, dare not take the risk of creating an extra job today which can well result in a case before an Industrial Tribunal or a large redundancy payment tomorrow. Mostly they cannot even afford to fight the cases and even if they do, and win them, the legal costs are heavy. Meanwhile a network of wages Councils is pricing potential workers out of small enterprises. We are creating a situation of slow and reluctant recruitment in recognised enterprise, mitigated to some extent by an active moonlighting situation outside.

If we want to encourage job creation in these enterprises we need to lift these restraints from industries up to those employing much more substantial numbers and take a new look at our wage negotiating machinery.

13. Jobs

We may face an Election with between two and three million unemployed. At best the figure is likely to be high by most former standards. If this is so we need in our propaganda to prepare for it.

A close examination of the pattern of unemployment is needed. Are we doing enough to publicise how the problem breaks down? Do we stress the proportion of the total population employed? If certain parts of it throw up special problems, i.e. the young, the absence of skill, the issue of mobility, are we either; a) doing something special about it or; almost equally important b) seeming to be manifestly trying to do something about it?

Should we concentrate on training for new skills or funding labour intensive jobs for unskilled, or both. We could go for longer periods in education, for greater effort in apprenticeship, for more training in special skills, for additional opportunities for military or other service. I recognise of course that much is being done but new approaches are still certainly available. Some of them require new attitudes by the Unions.

If extra resources become available the first priority should be to use them either directly or indirectly in the generation of new jobs rather than in raising in real terms the living standards of those depending on

Social Security.

14. Unions

The Green Paper will in any event have been considered. Our cautious approach may well have been right but is coming under considerable criticism. It is quite likely that S.D.P. may have new proposals in this field which could attract voters from us.

Firm action in liberalising the area affecting small and medium business may be easier than a frontal assault on Union powers in general. Decisions need however to be taken against the background of the increasing use of the strike weapon to achieve political objectives.

15. Europe

Europe will be an issue at the next Election. It is important that we make our stand clear upon this subject. The argument which is electorally the most appealing for Europe is that its market provides the jobs for millions in British factories. The more efficient we are the more jobs, but without Europe fewer jobs all round. We need and need badly new investment. Inward investment is an important part of this and few foreign industrialists in their right mind would recommend investment in the U.K. if it were in danger of being cut off from the European Market of which the U.K. is a part.

The main divide in the Election looks like being between the little Englanders led by Benn advocating Central planning and restricted imports, and the traditional world stage traders going for a share of the new wealth which will by then be hopefully again expanding.

Europe is not popular. The polls show 2 to 1 for leaving, though the issue among all our more obvious problems has hardly yet been argued. We need to devote some part of our time to this theme and in the process enlarge it into the foreign policy dimensions which Peter Carrington does so well.

16. Defence

Massive propaganda is being mounted against us on the issue of Defence. The World Disarmament Campaign is canvassing a petition whose terms are relatively innocuous and certainly ambiguous, whose proposals are unrealistic and whose result will certainly be used against us. The C.N.D. is operating and recruiting with great vigour. The Conservatives who stand alone for strong defences and the possession of an updated and credible deterrent are

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attacking one another. A concerted and united defence propoganda effort is under consideration and certainly needs to be initiated.

17. Constitution

Whether we like it or not it would appear that we are likely to spend much legislative time on such matters as local government finance. Medium or short term measures next session and longer term ones either in 1983, or prominent in our Manifesto. It is for consideration whether to put these rather drab and haphazard activities into some kind of Constitutional frame. While we are concentrating on local government the Social Democrats and Liberals, who will be during this period extremely active, will be arguing powerfully for Proportional Representation. The case against this is almost going by default.

18. Our approach could be something along these lines:

- A) The House of Commons remains the seat of democratic power in this country, checked at times a little by a Second Chamber, and reinforced by a powerful and important network of Local Authorities throughout the country. We wish to sustain and strengthen all these institutions.
- B) We have already strengthened the House of Commons by the introduction of Select Committees, which are now playing an important role in our processes of Government.

19. Proportional Representation

We are opposed to Proportional Representation. Quite a lot of the public and quite a slice of the Conservative Party rather like it. We need to decide how to tackle it. We could hedge on it or we could say something like:

We reject P.R. since its introduction for election to the Commons would bring about a fundamental change - namely that Members who now represent constituencies would increasingly represent only Parties, or additional members specifically drawn from Party lists and representing no-one, would deliberately be added. Such a change runs in our judgement contrary to the thrust of our historical development. P.R. would also remove decision-making much further from the electorate and place it in the hands of politicians trading policies for power.

We need a tactical decision since the case is at the moment going by default.

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20. We intend to restore and strengthen Local Government accountability by a reform of Local Government Finance, placing votes in the hands of all those who pay taxes and asking for financial contributions from all those who cast votes.

21. Finally the Lords. I think that the Cabinet should ponder deeply what they say about the Lords in the Manifesto. The logic of the constitutional themes above would be to round them off by Manifesto reference to a reformed and slightly strengthened second chamber.

22. Whatever view is taken of the above proposals they set out a theme and some identified policies upon which a Government should make decisions. Some such paper needs now to be produced in order to co-ordinate our public relations strategy.

How, even in recession, we can assist the growth of new enterprise, how we can limit the bureaucratic burden which now afflicts it, how the obstacles and disincentives to employment could be removed or minimised; the nature of the world we live in, Continental or Insular; Defence; the strengthening of our Constitution as a preservative of our freedom, are all great Conservative themes. Not enough of this emerges at the moment in the case which we are putting to the public.

PT/CAW
15.6.81

OUTLOOK FOR THE REST OF THIS PARLIAMENT

The principal issue for the rest of the parliament will be unemployment. There is general agreement amongst economists of all schools of thought that unemployment will still be at a very high level by the next election whatever policy action is taken.

Policy Options

Unemployment results whenever total money spending in the economy rises less rapidly than average levels of pay of those in jobs.

Average levels of pay may increase either because rates of pay rise or because the pattern of pay changes. (For example, when Haringey Council employs an extra school caretaker at £14,000 instead of two teachers at £7,000 each, average pay rises and employment falls).

Consequently all measures to reduce the total level of unemployment must do one (or more) of three things:-

- (1) increase the total level of money spending,
- (2) reduce or moderate the rise in rates of pay, or
- (3) reallocate spending from the high paid to the low paid.

Any policy which does not do one of those three things will not succeed in reducing unemployment.

(a) Reflation

Reflation will only reduce unemployment (below the level it would otherwise reach) to the extent that, and for so long as, any acceleration in spending is not matched by renewed acceleration in average rates of pay.

The Times, which now advocates reflation, recently simulated on the Treasury model a £4 billion reflation (i.e. £2 billion cut in taxes and £2 billion rise in public sector investment spending). The model

for what it is worth, indicated unemployment would be reduced by only 130,000 by the time of the next election. Inflation would of course reaccelerate. (On past experience it would eventually rise sufficiently to wipe out all the temporary rise in employment though the Treasury model implies this ^{would not happen} until after the next general election

Most other economic models suggest similar results:

- a disappointingly small (temporary) reduction in unemployment in return for the political humiliation of ^{abandoning} the strategy and losing the battle against inflation.

We conclude that simple reflation is not a serious option.

(b) Reflation Plus Pay Controls

In principle, if pay can be prevented from accelerating, reflation will feed through entirely to employment. In practise we do not believe it is realistic to suggest that the trades unions would openly co-operate with an incomes policy. In all probability some unions would actively seek to disrupt it.

On past experience it would be dangerous even to initiate discussions with the Trades Unions for voluntary restraint. This would be interpreted as a prelude to pay controls and would probably lead to preemptive pay claims. The Chart demonstrates how this occurred in 1972.

Subsequent pay restraint, though overtly adhered to prior to the Miners strike, was unable even to undo the damage caused by the initial invitation to discuss pay policy.

(c) Exhortation of Pay Restraint

Any campaign to persuade people to moderate pay increases must avoid sounding like a prelude to a formal incomes policy (for the reasons outlined in (b) above).

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If it is to stand any chance of having any influence it must simultaneously appeal to people's sense of rational self interest and their social conscience. In other words it should emphasise the link between pay and jobs (their own and other peoples').

Previous attempts to persuade people to moderate pay by emphasising the link between pay and prices have been ineffective and counter-productive. Most people are intelligent enough to realise that any impact restraining their own earnings might have on prices they themselves would pay is negligible by comparison with their lost earnings. At the same time harping on price increases aggravates inflationary expectations.

Emphasising the link between pay and jobs also has the benefit of emphasising the responsibility of Trades Unions for unemployment.

(d) Reallocating Expenditure Towards Lower Paid Employment

The disappointing response of a simulated £4 billion reflation on jobs (mentioned in (a)) suggests that it would be more profitable to consider ways of redirecting expenditure rather than increasing it. To use the example mentioned above, if Haringey council employed one fewer £14,000 caretaker it could employ two extra £7,000 teachers or three extra building labourers at £4,700 each.

Such 'micro' examples cannot be enforced directly by central government. However, it is possible that different programmes open to government have different average pay scales. Where the choice exists the low pay programme should be preferred to the high pay programme. All spending departments and local authorities should be urged to evaluate their spending in the light of this criterion.

(e) Pricing Groups Back into Jobs

Certain groups have been particularly hard hit by being prevented from pricing themselves into jobs - notably the young and the least skilled/casual worker.

Sustained pressure should be placed on the unions to restore differentials reflecting young people's lack of experience. It is significant that, although unemployment has risen by a million in Germany, young people have not been disproportionately affected. German apprenticeship schemes, which cover a majority of school leavers, serve primarily to enable young people to obtain job experience at low pay rates. The imparting of specific skills seems to be a secondary benefit since nearly 90 per cent eventually work in a trade other than that learnt in apprenticeship.

Wages councils should also be prevented from pricing out of jobs those they seek to protect. This is a delicate political issue since it would be easy to paint the government as 'encouraging sweatshops'. The media should be fed with material to denigrate the propaganda issued by the Low Pay Unit. But ministers should steer clear of publicising this aspect of policy.

3. Political Handling of the Unemployment Issue

Whatever policies are pursued unemployment is bound to remain high throughout this Parliament. The political impact of high unemployment is bound to be adverse.

However, the extent of the electoral damage done to the party will depend on how far we can reduce public belief that we are responsible for unemployment through deliberate policy, callousness or incompetence.

It is vital therefore that we repeat ad nauseam the following points:

(i) the deliberate creation of unemployment plays no part in our strategy. On the contrary the defeat of inflation, restoration of competitiveness and incentives are necessary precondition of any sustainable return to full employment.

(ii) we share the concern of everyone with feelings for the unemployed. Our concern expresses itself in the huge sums and varied programmes devoted to relief, alleviation and prevention of unemployment. It is those who exploit the misfortunes of the unemployed as a political weapon without offering any serious alternative policies to mitigate ^{them} / who merit the epithet 'callous'.

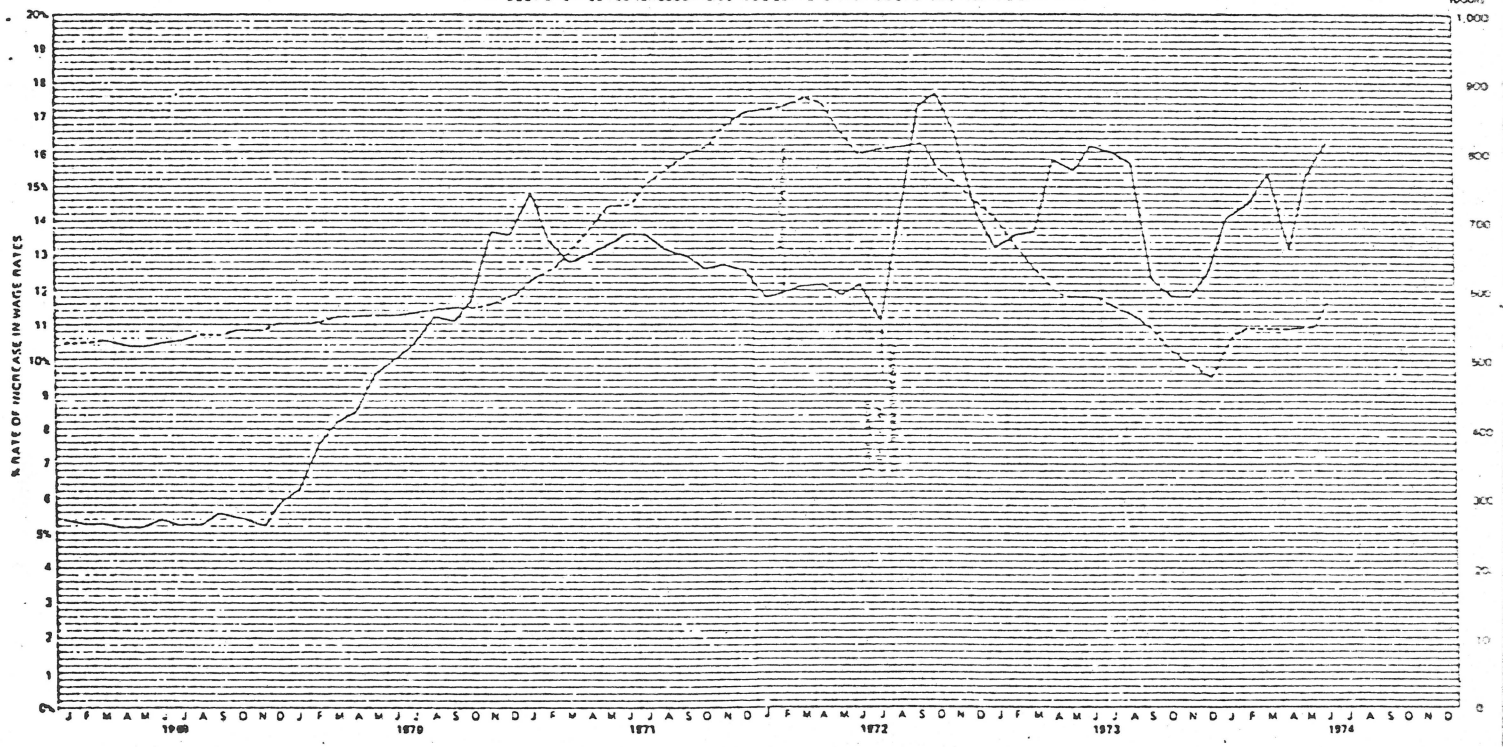
(iii) a substantial rise in unemployment was inevitable as a result of the world recession. Opinion poll data show that a substantial proportion of the electorate accepts that this is the case. They should be reinforced in that belief by repetition of it.

(iv) the problems of recession were aggravated in this country by the wage explosion following the collapse of Callaghan's incomes policy. The responsibility of the unions for pricing workers out of jobs generally, and specifically in the case of young workers and the formerly overmanned industries like steel, needs emphasising. We have not yet been very successful in putting these points over - largely through insufficient repetition.

(v) the problem did not begin with this Government. People need reminding that the first increase of one million came when Mr. Foot was minister for unemployment. It is also useful to recall that a secret Labour Party report leaked in 1976 forecast that unemployment would by now be even higher than its recent level had the last Labour government policies been maintained.

Our success in driving home these five points will largely determine whether or not we win the next election.

CHART 1 % INCREASE ON YEAR EARLIER OF BASIC HOURLY WAGE RATES ——— 1969-74
WHOLLY UNEMPLOYED (EXCLUDING SCHOOL LEAVERS AND ADULT STUDENTS) IN G.B. ———



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CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Ridley
Mr Cropper

J.W.

file
shortly

- not for circulation

POLITICAL STRATEGY

I enclose a short commentary on the papers by Lord Thomeycroft and Peter Lilley that might serve as an annotated agenda for the meeting at 5.30pm on Wednesday 24 June.

G.C + A.R.
morning



GEORGE CARDONA

23 June 1981

D. Howell

Prizistinlin

60

Rates

Law & order

DISCUSSION OF POLITICAL STRATEGY

Relevant papers are: "Strategy" by Lord Thorneycroft (15 June), "Unemployment" by Peter Lilley, and the comment by the Minister of State, Lords (22 June).

1. Lord Thorneycroft's paper is diffuse.

Inflation? Outlook: 7.5.
Views?

However points for decision emerge:

(a) Paragraph 10 of the paper recommends ^{the} PM should nominate a few people to work with the Conservative Research Department to identify issues upon which to concentrate public attention.

There is of course already the liaison committee, of which the Chief Secretary is a member.

(b) Paragraph 11 of the paper provisionally identifies six issues on which the Party should concentrate:

- Enterprise Europe
- Jobs Defence
- Unions Constitution

The commentary Lord Thorneycroft gives (paragraph 12) on Enterprise turns out to be largely about trade unions and employment legislation. His paragraph 13 on Jobs touches on trade unions, and - more to the point - Peter Lilley's longer note on unemployment deals with the unions insofar as it is about policy and not about presentation. Lord Thorneycroft's third economic issue is of course explicitly Unions. It is difficult to escape the underlying - and absolutely correct - message that the time left to the Government in which to deal with the problem of trade union power is dwindling.

(c) Europe and Defence are issues on which more propaganda is called for. It is difficult to disagree with this.

(d) The Constitution is Lord Thorneycroft's final issue.

The question posed is: should changes in local government's position be part of a wider examination of the constitution perhaps followed by reforms. Again one cannot escape the feeling that Lord Thorneycroft is asking the PM to Do Something.

2. Peter Lilley's paper is a lucid analysis of unemployment, with some sensible themes for public presentation. Apart from the trade union question mentioned above, he recommends that the Government should prefer spending programmes with low paid employees to those with high paid employees. Other things being equal, this seems a sensible criterion. But are there cases where it can actually be used? Should the question be remitted to officials?

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