

PREM19

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ECONOMIC POLICY

(Strategy)

(Part 3)

PREM 19/26

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PART 3

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Economic Strategy.
Pay and Prices. Monthly Economic Report.

Economic
Policy

Part 1: May 1979

Part 3:
July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
24.7.79							
30.7.79							
6.8.79							
4.8.79							
15.8.79							
24.8.79							
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7.9.79							
14.9.79							

PREM 19/26

PART 3 ends:-

E(79)47 2nd Oct 1979

PART 4 begins:-

Chan Ex to Am 12 Oct 1979

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(79) 24	16/07/79
E(EA)(79) 29	18/07/79
E(79) 25	20/07/79
E(79) 28	20/07/79
E(79) 6 th Meeting, Minute 4	24/07/79
E(EA)(79) 10 th Meeting, Minute 1	26/07/79
E(79) 29	30/07/79
CC(79) 13 th Conclusions, Minute 2	10/08/79
CC(79) 14 th Conclusions, Item 7	30/08/79
MISC 14(79) 2	03/09/79
MISC 14(79) 4	03/09/79
E(79) 30	04/09/79
MISC 14(79) 1 st Meeting, Minutes	06/09/79
MISC 14(79) 5	17/09/79
E(EA)(79) 42	19/09/79
MISC 14(79) 2 nd Meeting, Minutes	19/09/79
E(79)42	24/09/79
E(EA)79 13 th Meeting, Item 1	26/09/79
E(79) 47	02/10/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed Wayland

Date 24 October 2009

PREM Records Team



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Econ PL

10 DOWNING STREET

From the Private Secretary

24 August 1979

The Prime Minister has seen and noted your letter of ~~21~~ August (to Nick Sanders) about National Savings Certificates.

M. A. PATTISON

Mrs. P.C. Diggle,
H.M. Treasury.

VLS

PRIME MINISTER

2.



The response to your concerns
about possible NSB Investments
Account interest rate increase.

MP 21/8m.

Treasury Chambers, Parliament Street, SW1P 3AG

21 August 1979

N Sanders Esq
10 Downing Street
LONDON
SW1

mb

Dear Nick,

The Financial Secretary has seen your two letters of 14 and 15 August about National Savings Certificates.

He is sure that the Chancellor would want him to reassure the Prime Minister that he will very much have in mind the points which she has raised. While the potential situation in the gilts market, and the availability of the tax rebates, would make a new certificate in October helpful for monetary control, he readily accepts that there is a very strong case for postponing any move in this direction until the New Year, when it may be clearer what level of interest rates generally will be needed in future to maintain monetary control, and when the building societies will have finally decided on what their rate structure is to be after 1 January.

Yours,

Paula

P C DIGGLE
Private Secretary

21 AUG 1979

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10 DOWNING STREET

From the Private Secretary

15 August 1979

National Savings Certificates

The Prime Minister has seen your letter to me of 14 August about the National Savings Bank Investment Account interest rate. When she saw it she made a comment about the proposed National Savings Certificate issue - on which I wrote to you yesterday.

The Prime Minister takes the view that going ahead with a new Savings Certificate issue would be goading the Building Societies to put up their interest charges to home buyers. She has added that if we expect co-operation from the Building Societies, we must be prepared to co-operate with them ourselves.

No doubt the Chancellor will take these views into account in coming back to the Prime Minister on the subject of the National Savings Certificate issue.

M.A. Hall, Esq.,
H.M. Treasury.

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PRIME MINISTER

To see. We

have asked the Chancellor to come back to you about the proposed Saving Certificate issue as well.

MJ5

14/8



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

If you go ahead with a new savings certificate when time you will be going to the building societies to put up their interest charges to home buyers.

14 August 1979

Dear Nick You can't expect co-operation from them and they're unprepared to co-operate with them anyway.

NATIONAL SAVINGS BANK INVESTMENT ACCOUNT INTEREST RATE

The Prime Minister raised recently with the Chancellor the decision to increase the National Savings Bank (NSB) Investment Account interest rate, and its possible effects on building societies: I understand that it was also mentioned at Cabinet on Friday. The Chancellor has asked me to let you have a note on the background to the decision. (He is of course on holiday and has not therefore been able to approve this letter; but he did not want the note to be held up until his return.)

As the Treasury paper, "Funding the PSBR and the Gilts Market", for the Prime Minister's Monetary Seminar pointed out, there are good grounds for continuing to seek a significant contribution to the financing of the PSBR from National Savings: the total cost of borrowing will tend to be lower, the wider the range of markets we can tap; and the inflow from National Savings may help to bridge the gap when there is a hiatus in sales in the gilts market. We would hope that it would again be possible to raise some £1,500 million in 1979-80 from this source as a means of achieving the monetary objective without putting too great a strain on the gilts market. The NSB Investment Account has played a critical part in the recovery of National Savings as a means of financing the PSBR in the last 3 years. Its interest rate has been moved in line with market rates and inflows have increased: it contributed some £500 million in 1977 and 1978 taken together, and over £200 million in the first 6 months of this calendar year.

In normal circumstances the NSB Investment Account interest rate would have been moved to 13 per cent with effect from 1 August, following the change in competing rates in mid-June. However, given the Prime Minister's concern about the mortgage rate, the decision on the Investment Account was delayed until it was known what building societies were going to do with their investment rates. After the societies had decided to limit the

/extent

N.J. Sanders, Esq.,

CONFIDENTIAL



extent of increase, the increase in the Investment Account rate was limited to a $\frac{1}{2}$ per cent, bringing the rate to $12\frac{1}{2}$ per cent. For various technical reasons this investment account rate is effectively somewhat less than the new building society share rate, which grosses up to $12\frac{1}{2}$ per cent.

So long as the NSB Investment Account rate is in line with, or below, competing interest rates, i.e. not leading them upward or holding them up, it will have very little effect on building society inflows. It therefore cannot, of itself, lead to an increase in the mortgage rate. So the increase should not affect the question of whether building societies do in fact raise their mortgage rate on 1 January next. On the other hand, not to have raised the NSB Investment Account rate could well have reduced the inflow into National Savings in the next few months. This would have had an important - perhaps a critical - bearing on our control of the money supply. Furthermore, longer term harm would have been done to the Investment Account, as investors could no longer have presumed with any confidence that the interest rate would be moved when market rates moved.

I hope that you find this explanation helpful.

Yours ever,

ME

(M. A. HALL)

CONFIDENTIAL

14 AUG 1979



CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

14 August 1979

NATIONAL SAVINGS CERTIFICATE ISSUE

When the Prime Minister saw the Chancellor's minute to her of 9 August about the economic and financial situation, she commented that she had considerable doubts about the timing of the possible new issue of National Savings Certificates mentioned in paragraph 9. The Prime Minister thought that an issue at the time proposed might have to have a higher interest rate than would be the case a little later.

The Prime Minister intended to mention this point to the Chancellor, but to the best of my knowledge she did not do so. Given the Prime Minister's views, no doubt the Chancellor will wish to put the question of the timing of any new issue of National Savings Certificates to her again before a final decision is taken.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

N. J. SANDERS

KR/S

M. A. Hall, Esq.,
H.M. Treasury.

CONFIDENTIAL

S E C R E T



Prime Minister, 1 8
To see.

R. Carter
Duty Clerk

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

PRIME MINISTER

PM Hassan
MS

MR LANKESTER (OR)

to see MS

ECONOMIC AND FINANCIAL SITUATION REPORT

I have carried out a general "stock-taking" on the economy at a meeting with my advisers here and with the Governor and I thought that you would find it helpful on your return from Lusaka to have a summary of developments and prospects as I see them at present. There are a number of difficulties ahead - not least the very tight Budgetary prospects for next year - and we shall need to monitor developments very closely. But it is too early to make other than very tentative judgements - we shall have a new forecast in October - and I am satisfied that all the necessary preparatory work that we can reasonably undertake is in hand. We shall, of course, be resuming our discussion in Cabinet of public expenditure on 13th September, and I have sent you a separate minute on the timetable for announcing our decisions.

Output, employment and inflation

2. On the economy generally, GDP in the first half of the year was not too different from forecast. But with the recovery from the winter and a sharp rise in consumers' expenditure being offset by a worse external performance than expected (higher imports and lower exports) the present level of GDP is still only about the same as last summer. In the coming months consumer spending will probably fall back to more normal levels and a cyclical downturn in investment and stockbuilding appears imminent. We must

/also expect

S E C R E T



also expect the growth in public expenditure on goods and services to have been halted. The depressed outlook for world trade and our own loss of competitiveness will inevitably limit the prospects for a recovery in exports; but the slowdown in domestic activity should reduce the rise in imports. All this suggests that although unemployment was steady in July, it may begin to rise before long.

3. The underlying rise in average earnings appears to have been about 15 per cent over the past 12 months, and the average level of settlements seems to have been rising. Initial signs for future private sector settlements are therefore not encouraging. In the public sector, the recent Clegg awards will add (on Clegg's own estimate) about 11 per cent on average to the pay bill for the groups affected in a full year before allowing for offsetting economies, and I have more to say on this in paragraph 6 below. The awards did not include nurses and teachers where substantially higher settlements are possible.

4. As you know, retail prices were 11.4 per cent higher in June than a year ago, and the July year-on-year increase - due to be announced on 17th August - seems likely to rise to about 15 per cent mainly as a result of the Budget tax changes.

Pay

5. Initial signs for pay claims in the coming months, as mentioned above, are not encouraging. Early negotiations cover Vauxhall, British Leyland, British Oxygen, Fords and local authority manuals. The miners could also come nearer the head of the queue if they try seriously to advance their settlement date to November. Employers in the private sector are expecting a freer hand than last year, but many may not have fully appreciated the problems in relating pay

/settlements



settlements to what can be afforded, and we must continue (as in the campaign that Keith Joseph, Angus Maude and I are now launching) to make clear the consequences of excessive wage settlements.

6. In the public sector, we are currently costing and evaluating the first batch of Clegg reports. As mentioned above, the increases so far recommended, which cover about half the total number of public service employees referred to Clegg, seem likely on Clegg's estimates to add about 11 per cent on average to the total pay bill of the groups affected in a full year. This is a good deal higher than we had assumed in the post-Budget Forecast for these groups, since in computing the overall average we assumed that the awards to nurses and teachers would be substantially higher. It is too soon to make a confident estimate of the overall implications of Clegg, but even allowing for some success in buying out restrictive practices, the average payments recommended for all groups could be at least 2-3 percentage points higher than the post-Budget forecast assumed. This could obviously represent a considerable threat to our plans and, when the assessment of Clegg has been completed, we shall need to consider whether any further savings are practicable to offset the cost of the awards; whether, and if so, in what form, we should submit Government evidence to Clegg on his approach to outstanding references; and whether we want the Commission to continue in existence once work on this round's references is completed. E Committee will, of course, be considering papers on this in the first half of September.

Company liquidity

7. Our policy of squeezing out inflation through monetary policy inevitably creates a tight liquidity position for companies in the short-term. This is part of the process by which excessive wage increases are discouraged. Our

/concern



concern must be whether the squeeze could cause widespread bankruptcies. The impact on the cash flow of companies is uneven and falls particularly severely on companies closely competing with foreign suppliers. The latest rise in the wholesale price index - up 2 per cent in July - may be evidence that companies are aware of the need to improve their cash flows. The scope for raising prices, however, will tend to be limited by the expected tight demand conditions and the relatively high exchange rate. In general, although the outlook is bleak, it is not disastrous. Although there will be problems, particularly as a result of the exchange rate, which will vary between industries and firms, I do not foresee a serious financial crisis, certainly by the standards of 1974. I shall continue to keep the position under close review and have already considered possible measures to help company liquidity. I fear, however, that none of these is easy; most require legislation; and all would involve a PSBR cost.

Monetary developments

8. The money supply figures for banking June, the latest available, confirmed that the underlying growth was still 13 per cent or more. The banks' eligible liabilities figures, which are used by the market as an indicator of the £M3 rise, show an increase of some $\frac{1}{2}$ per cent in banking July. £M3, however, seems likely to have risen somewhat more than this, although not as rapidly as in recent months. The figures for £M3 will not be published until 16th August.

9. I see no immediate need to alter our policies. The eligible liabilities figures published on Tuesday seem to have been well received by the markets, perhaps in particular because they suggest a more modest increase in bank lending, and the Bank have been able to sell the balance of the long tap. If the market remains firm we will be announcing a new short tap on Friday. I am also considering other ways

/to help



to help fund the PSBR in the autumn - perhaps by a new National Savings Certificate issue to coincide with the October tax rebates. We intend to allow the already announced recalls of special deposits from the clearing banks to go ahead on 13th August and 10th September, and we shall keep the SSD scheme under review to ensure its general effectiveness. It is still too early to judge whether we have got the money supply under control, and we will need to see some further months' figures before we can be confident about the possibility of interest rates to come down. But I do not share the pessimistic views expressed by some commentators earlier in the week that the next move is likely to be upward rather than downwards.

The exchange rate

10. Sterling's rapid rise against both the dollar and other currencies peaked towards the end of July with the effective rate close to 74.0, an appreciation of almost 10 per cent since the Budget. An adjustment, however, was overdue, and sterling fell sharply on 31st July and again on 6th and 7th August. The effective rate now stands at around 70½ which is nearly 5 per cent higher than on Budget Day.

11. The announcement of the large increase in foreign exchange reserves for July caused some surprise at the apparent extent of the Bank's purchases of dollars from the market but sterling's recent downward adjustment shows that they were justified in order to take some of the speculative froth out of the market. If sterling continued to fall but only gradually, the Bank would give some modest support to the pound but would sell fewer dollars than they bought while the rate was rising. But it is possible that some piece of bad domestic news - possibly concerning

/inflation



inflation or the current account of the balance of payments - could cause the pound to be marked down sharply. If so, we have concluded that it would be advisable for the Bank to make its presence felt in order to avoid giving the impression that the authorities desired a further depreciation of sterling.

PSBR and public expenditure

12. The position on the PSBR this year continues tight. It is imperative, both for the budget arithmetic and for the future control of spending, that we take a very firm line against proposals for additional public expenditure, however modest. Cash limits are exerting a squeeze on expenditure and there are signs that some Departments are finding difficulty in living with this. Having deliberately reduced the contingency reserve in the budget, there is very little margin remaining there for new decisions involving expenditure, however attractive on merits. The threats I can already foresee would preempt virtually all that is available in the reserve.

13. In the meantime, as indicated in paragraph 6 above, the cost of the Clegg awards could be higher than assumed in the post Budget forecast. The Post Office strike, which is delaying telephone bills, will also add significantly to the PSBR at least in the short run.

14. For 1980-81, although it is dangerous to guess too far at the net effect of new developments, the prospect for the PSBR looks increasingly difficult, with very little room for manoeuvre. The Clegg awards are again a factor; and as you know, Cabinet's decisions on the public expenditure programmes came out about £1½ billion higher than the target. We are looking at all possible revenue raising options, including the North Sea.

/Conclusion



Conclusion

15. I hope this will give you a helpful, if not very cheerful, general picture of the current situation and prospects. We shall need to monitor developments very closely as background to the decisions we shall be taking in the autumn prior to announcing our public expenditure and other plans. But it is clear that room for manoeuvre is likely to be very restricted and we shall need to stick firmly to the monetary and fiscal path on which we are now set. There is no reason - or indeed room - to change course; it must be a case for steady hard pounding. We must also continue to expound our policies at every opportunity and I hope that the campaign that we are now launching (and for which I have already circulated basic briefing) will enable other Ministers increasingly to share this task with us.
16. I am sending a copy of this minute to Sir John Hunt.

Am Baccini

PP. (G.H.)
g August, 1979

[Approved by the Chancellor of the Exchequer and signed in his absence]

CONFIDENTIAL



Econ Pol.

NBPM

ms

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

9 August, 1979

Thank you for your note of 1st August in which you develop your views on the contribution the Government policy might make towards a healthier economy and the preservation of a free society. I agree with you all along the line, and I have no doubt that our colleagues would do so as well.

The note raises, of course, some fundamental problems. As you suggest underlying the urgency to find solutions to our economic difficulties - low growth, inflation and so on - there is lurking a political challenge which threatens the very survival of our democracy. I am sure that changes in the fiscal environment can contribute towards defeating this challenge. Sustained action in the area you suggest will improve our economic performance and establish therefore a more hopeful future.

In fact, as you know, the specific measures you suggest are being examined by officials in the context of the strategy exercise. On this I have to sound one note of caution. The arithmetic looks like obliging us to approach measures which cost a good deal of revenue more cautiously than either of us would wish. The fact that our proposed spending cuts emerged from Cabinet about £1.3 billion "light" underlines the extent to which our pace of fiscal progress will depend on compatible policy changes in other areas.

In any case, to borrow an overworked but useful phrase, while fiscal reform is a necessary condition for our success, we know that it is not sufficient in itself. A great more needs to be done and the private sector must be encouraged to play its part. In this connection following an E Committee discussion on pay Angus Maude, Keith Joseph and I have accepted responsibility for setting up a concerted publicity campaign to get across the need for responsible pay bargaining and more generally to explain the purpose and aims of our economic strategy.

I am copying this to Members of "E", John Hoskyns and Sir John Hunt.

(GEOFFREY HOWE)

The Rt.Hon. David Howell, M.P.

1-9 AUG 1979





VMS

DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522
From the Secretary of State for Social Services

G B Spence Esq
 Private Secretary to
 Sir Kenneth Berrill KCB
 Director General of
 Central Policy Review Staff
 Cabinet Office
 Whitehall
 London SW1

6 August 1979

Dear Spence

STRATEGY E(79)24

I am writing in connection with the Annex to the CPRS note, E(79)24 of 16 July. The Annex recognises the DHSS as having an interest in three proposals:

- * 2.2, continued action to reduce the poverty trap,
- 2.3, clamp down on malingering, and
- 2.5 (i) allow women to set child-minding expenses against personal taxes.

Might I also ask that DHSS is associated with any Departmental examination of the following initiatives:

- 3.5 (i) which concerns the Pension Funds,
- 6.7, which relates to the National Insurance surcharge, and
- 7.2 and 7.4, which involve health considerations.

Moreover, because of our responsibilities for helping the unemployed we are interested in most things that affect the labour force - eg skills, (1.1), work incentives, (2.1), employment protection, (4.1) and mobility (5.1). But (apart from the "poverty trap" aspect of incentives where our interest is recognised and we are in fact represented on a group who are studying it) we do not feel we have any special contribution to make to these studies. We would however be interested to see the results in due course.

I am copying this to the Private Secretaries to all members of E Committee and to the Private Secretary to Sir John Hunt.

Bernie Merkel
 B C MERKEL
 Private Secretary

-7 AUG 1979





cc D. Wolfson
Paymaster-General ² PRIME MINISTER

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

To see
Mrs
2/8

01 211 6402

Rt Hon Sir Geoffrey Howe, QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall

1 August 1979

Dear Sir

When we were discussing the paper on Strategy E(79)28 at 'E' on Tuesday 24 July I urged the need - which you readily acknowledged - for the right thematic presentation of our efforts to accelerate the revival of enterprise in our kind of society.

The attached amplifies some of my views.

I am copying this to Members of 'E' John Hoskyns and Sir John Hunt.

Handwritten signature
David

D A R Howell

1. Looking perhaps years rather than months ahead it seems to me that there are three major areas of concern to which politicians on the capitalist and market economy side ought to be turning their minds if Britain is to move on out of pallid convalescence, and if we are to be spared having the collectivists in a few years time once again hammering at the door with their ugly authoritarian 'solutions' and their strident claims that free enterprise has failed.

2. I would put the three concerns this way: First, not nearly enough people in Britain own capital assets, want opportunities for personal capital building or understand the opportunities they have already, or see themselves as in any way participating in the capital formation process upon which almost their entire living standard rests.

3. Second, not nearly enough people perceive that the source of income and output in a modern economy is not labour alone but labour and capital combined, and that a growing share in the rewards of capital offers a far better prospect of higher economic status and greater economic security than the mindless pursuit of higher money wages and salaries.

4. Third, not nearly a wide enough range of people are in a position to dispose of and decide how to invest small parcels of capital - which is the other side of the argument that too many decisions about how capital is employed are governed by ponderous committee procedures and bureaucratic mentalities and not enough by small investors, families getting together to start something up or bright lads with local backing.

5. Of course these three propositions all describe three facets of the same problem - that for the vast majority of workpeople in Britain, even today, there appears to be scarcely more economic opportunity to escape the weekly wage mentality and to advance out of the propertyless state through capital ownership than there was a hundred years ago.

6. In fact, as we know, the appearance belies, since the overwhelming majority of households now have both life policies and an occupational pension interest which gives remote asset ownership in some degree and the prospect eventually of a non-wage income from a source other than the state. But if that is today's reality it certainly fails to permeate the public debate where the rhetoric of the class struggle between labour and capital still prevails

The preoccupation continues to be with income redistribution to meet declared needs, rather than with wider participation in the ownership of new capital - thus giving armies of ^{officials and great deal of} power deciding what those needs are and how and when they will be met.

7. As for the policies which might go with these new concerns I am not even sure, and nor are any of us, exactly how the economic landscape will appear once taxation levels have really been reduced and we are no longer an inordinately high tax country. We probably need to get to the top of that hill first and take a look.

8. But I strongly suggest that much more extensive employee share ownership schemes should be part of the new scene, as should be tax schemes available to all and designed to favour strongly any portion of income, up to quite a high ceiling, set aside and invested for a qualifying period. Greater equality of tax treatment for all savings, whether through institutions or not, must be an objective which should have our support.

9. Whether we go in for the elaborate arrangements to encourage personal capital ownership that the West Germans and the French and the Americans have developed, we will have to decide as part of our tax reform programme. It is possible that administratively simpler approaches can be devised.

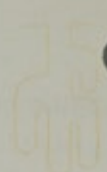
10. A further expansion of private home ownership and much reduced public authority 'landlord' control must obviously be part of the new scene; also the need for further incentive to land-owners to let land again instead of taking it in hand and cutting tenancies (as they have been doing for the last 30 years). Vital, too, are the policies which we are pursuing to redress the balance drastically in favour of small and new businesses. Moreover, these will have to go hand in hand not merely with the removal of obstacles to independent enterprise, as already being advocated by colleagues, but with a much

tougher assault than anything hitherto on the monopoly and oligopoly practices in both the state and private sectors which deter new entrants to markets and perpetuate some of the dinosaur mergers of the past.

11. That some major firms themselves are now wondering how they can spawn not just new subsidiaries but entirely separate new ventures is, I think, part of a healthy and wise preparation for the better pattern to come (Shell, for example).

12. A really wide spread of the ownership of industry large and small/^{and} a vigorous exposition at popular level of the immense potential of a capital-owning democracy - these seem to me to be the best guarantor of a supple and robust free economy in the future and the best hope for a really lively investment response once the taxes and other barriers come down - as well as being a crucial safeguard for our liberties against the 1984 brigade.

15. Huge forces, collectivist and corporatist, will be pushing and leaning the other way. All the more reason to ensure that resistance to them springs from the grass roots.



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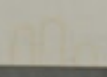
12 AUG 1979

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

30 July 1979

Dr Kim

STRATEGY PROPOSALS

Following the decisions taken at last Tuesday's meeting of E, I have been considering what steps are necessary to ensure that the Steering Committee (comprising myself in the Chair, yourself, Michael Heseltine, John Hoskyns and Sir Kenneth Berrill) is ready to report back to E by the end of September on the priority items which were identified in John Hoskyns's paper (E(79)28) and endorsed by E.

Since the priority items have already been identified, I do not think that Steering Committee need meet until lead Departments and supporting Departments on the various items have had time to do some work and to report to us. I suggest that we should plan to have a first meeting of the Steering Committee at the beginning of September to consider initial reports from Departments (accepting that some of these may have to be of an interim nature). This would allow us to take stock, and to consider what further work is required. We would be able to meet again in September (more than once if necessary) to settle our report to E. I myself am out of London from 26 September until the Party Conference and I would hope that we could have completed our work before then.

We agreed at E Committee that the lead Department should immediately set in hand the necessary studies and consultation on each topic, and I have already arranged for this work to be put in hand by the Departments for which I am responsible on the items which fall to me, including the fiscal items and, as arranged between us and Michael Heseltine on 23 July, work on Enterprise Zones and Pilot Areas.

More generally, in order to ensure that arrangements for the necessary work are satisfactorily put in hand to meet this timetable, Sir Kenneth Berrill is arranging a meeting this week of officials from the interested Departments. This will provide

The Rt. Hon. Sir Keith Joseph, MP

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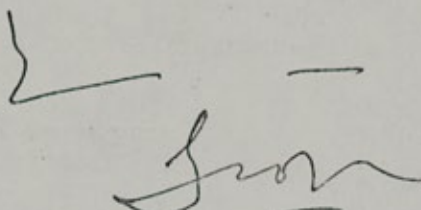


an opportunity to sort out any problems of coverage, procedure, and interdepartmental machinery. Sir Kenneth will report back to us following this meeting. If any difficulties were to arise, we might need to consider an earlier meeting of the Steering Committee, but I hope that this will not be necessary.

Officials will subsequently consider the handling of the other strategy items on which it was agreed that work should proceed and that reports should be made to the Steering Committee from time to time. But these will not be for our end September report.

I hope you and Michael Heseltine are content with these arrangements.

I am sending a copy of this letter to Michael Heseltine, and for information to the Prime Minister and other members of E, to Francis Pym, Patrick Jenkin, Mark Carlisle, Angus Maude and Norman Fowler. I am also sending copies to Sir John Hunt, John Hoskyns and Sir Kenneth Berrill.



(GEOFFREY HOWE)

31 JUL 1979



CONFIDENTIAL

Mr Whitehall (on return).
→ C.F.

Cabinet Office,
Whitehall,
London SW1

27th July, 1979

PS(79) 23

Dear Private Secretary,

Handling of Pay Cases

I am writing to confirm the instructions for the handling of individual pay cases which have been agreed by the Ministerial Committee on Economic Strategy.

In order to ensure that the financial implications of proposed pay offers are adequately explored Ministers have agreed that -

- (i) All Departmental Ministers bringing forward papers about pay issues to Cabinet Committees should ensure that the papers fully set out not only the size and cost of any proposed pay increases but also the effect of the increases on prices, local rates, taxes and employment if the cash limits or financial rate of return already laid down for the organisation concerned are adhered to.
- (ii) All proposals to Ministers on individual pay cases, whether for collective discussions or for agreement in correspondence, should contain information, to be agreed in advance with the Treasury, on the implications of the proposals for cash limits and the scope for offsetting economies.

It is important that these rules are adhered to. I would be grateful if you could ensure that all those concerned in your Department are fully aware of them. This will help to avoid delays occurring through the need to resubmit papers which do not adhere to the rules.

I am copying this letter to the Private Secretaries to all members of the Cabinet and to the Minister of Transport.

Your sincerely,

(Signed) M. J. VILE

CONFIDENTIAL

CONFIDENTIAL

Director
Whitney
London SW1

27th July, 1979

ES(79) 53

Dear Private Secretary

Financial Proposals

I am writing to confirm the instructions for the handling of individual pay cases which have been agreed by the Ministerial Committee on Economic Strategy.

In order to ensure that the financial implications of proposed pay offers are adequately explained, I have agreed that -

(i) All Departmental Ministers bringing forward papers about pay issues to Cabinet Committees should ensure that the papers fully set out not only the area and cost of any proposed pay increases but also the effect of the increases on prices, local rates, taxes and employment. In the case of financial proposals, the financial implications should be set out in the papers already laid down for the organisation concerned and referred to.

(ii) All proposals to Ministers on individual pay cases, whether for collective discussions or for agreement in correspondence, should contain information, to be agreed in advance with the Treasury, on the implications of the proposals for cash limits and the scope for othering arrangements.

It is important that these rules are adhered to. I would be grateful if you could ensure that all cases referred in your Department are fully covered by them. This will help to speed delays resulting through the need to re-prepare papers which do not adhere to the rules.

I am copying this letter to the Private Secretary to all members of the Cabinet and to the Minister of Transport.

Yours sincerely,

(Signed) M. J. Hill

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

*Lester
Prior - 20x
Anubals*

Strategy
(E(79) 24, 25 and 28)

BACKGROUND

You took a meeting of a limited group of Ministers on 18th June, to consider Mr. Hoskyns' first paper on 'strategy'. (Incidentally, this paper was not widely circulated to other Ministers, some of whom may ask for copies: you may wish to consider circulating it more widely.) At the end of that meeting, you invited the Secretaries of State for Industry, Employment, Environment and Trade, and the Chancellor of the Exchequer, to send in ideas for improving the supply side of the economy. Seventy-six proposals were received, collated by the CPRS and Mr. Hoskyns, classified, and some priorities suggested. The summary is attached to E(79) 24 by the CPRS. But this is now overlaid by a second Strategy paper by Mr. Hoskyns - E(79) 28 - which, among other things, contains a rather different 'short list' of 24 'priority items'. It also continues the discussion of the recovery process started in his earlier paper: and ends with some suggestions on how to change attitudes. There is also a third paper by the CPRS - on the role of the institutional investor E(79) 25 - circulated at your suggestion (Mr. Lankester's minute of 16th July) which is really a background paper on proposal 9.5 in the CPRS paper (which is not singled out as a 'priority item' in the Hoskyns list).

HANDLING

2. Mr. Hoskyns has suggested, in Appendix B to his paper, a framework for this meeting, consisting of three items:-

- (i) What short list of measures do we select to start work on?
 - (ii) What should be the mechanics for progressing the work?
 - (iii) Is there agreement on the communications approach and the main elements of the communication programme?
- (a) What short list of measures do we select to start work on?

Four out of the five Ministers contributed to the list. (The bulk of the suggestions, incidently, came from the Secretary of State for Industry.)

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Mr. Hoskyns has reduced this list to 24 'priority items'. Even this is quite a formidable programme. But should any others be added at this stage - notably the asterisked items from the CPRS list which Mr. Hoskyns has suggested should be left over (paragraph 3.5)? (There is for example nothing on education and training in his list.) Ministers may wish to press for some additions but you might be guided by Mr. Hoskyns' suggested criteria (paragraph 3.3) that at this stage, the exercise should concentrate on items which are both beneficial in themselves and have some psychological shock effect. In any case, given the shortage of time, you will want to discourage too much discussion of substance at this meeting. The object is to allocate responsibility for further work, not to take the final decisions. The non-priority items will not be forgotten: see below.

(b) What should be the mechanics - Committees etc. - for progressing new work?

The main choice lies between a single umbrella group, and farming out the work. We could of course set up a new Cabinet sub-committee (Ministerial or official) for the purpose: and the Chancellor may wish to suggest that an existing Treasury-chaired group should do the work. (This is IGI - the group on the Impact of Government on Industry.) But both of these proposals are a bit top heavy, particularly since much of the work will have to be done during the summer holidays, when it is not easy to get a full- interdepartmental group together. Instead, the CPRS have agreed with Mr. Hoskyns to recommend that the work be divided into the four groups set out in his Appendix A, allocated as follows:-

- A. "Encourage the wealth creators" (Treasury).
- B. "Cut the red-tape" (Industry).
- C. "Restore the right to work" (Employment).
- D. "Let the market economy serve the people" (Trade).

Oswald

CONFIDENTIAL

It would be for each Departmental Minister to decide how to organise the work falling to him. His own Department need not necessarily be in the lead for every item in the Group. The only conditions would be that the other Departments named against each item in the CPRS paper should be allowed to participate; that any other Departments (especially Industry) wishing to stake a claim should similarly be encouraged to join in; and that the CPRS and Mr. Hoskyns should have the right of attendance at each group or sub-committee. It will also be important to make sure that the Treasury and Revenue Departments consult the others about the fiscal elements, and do not attempt to keep these matters to themselves.

3. These four groups should be asked to report back to E by the third week in September. The point of this deadline is to ensure that the Committee has a chance to look at the proposals in time for some of them to be announced in the Party Conference.

4. That leaves over the non-priority items in the CPRS list - including the two which they themselves added ((a) and (b) at the very end of their paper). It might be left to the individual lead Department to pursue these, in slightly slower time. They could be asked to report to the CPRS by the middle of January; the CPRS and Mr. Hoskyns could then submit an omnibus report to the Committee at about the end of that month. The point of this timetable is to allow any necessary decisions to be taken before the Budget.

5. A word of warning about timetables. Some Ministers, notably the Secretary of State for the Environment, have been complaining recently about bureaucratic opposition to their schemes, and asking for instant decisions on new ideas. Mr. Heseltine's own proposed 'accelerator' ideas are a good example. There may be some force in his complaints. But equally, such proposals do have to be worked out in considerable detail before the Government can commit itself to major policy announcements especially when they involve additional expenditure. You decided last week that it would not be possible to work out a 'pilot areas' scheme in time to include in the regional policy statement. I doubt if it is realistic to proceed very much faster than the

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timetable outlined above. But a good deal of work is already in hand in Departments on many of their proposals, so that an interim report in September, leading to conclusions on at least some of the priority items, does not seem unreasonable.

- (c) Is there agreement on the communications approach and the main elements of the communications programme?

Mr. Hoskyns attempts to remove some misconceptions about his earlier paper, by throwing the emphasis on to 'Rebuilding Britain' rather than 'Stabilisation'. He also emphasises the need for psychological shock tactics, and this informs his selection of priority items. This emphasis seems appropriate, and in line with the Government's thinking so far. So, too, is his emphasis on the 'matchsticks' approach, building up gradually towards a cumulative effect which suddenly becomes apparent to the public. Ministers should not find much difficulty in agreeing this strategy: but you will want to listen particularly to the views of the Paymaster General, whom we have invited for this item. He will have to be involved in some way in the direction of a communications programme of this kind: paragraph 5.6 too suggests the 'small tactical committee which meets frequently' to oversee the operation. If this idea appeals to you, you might undertake to think further about the mechanics. (It will be important to ensure that the public relations side does not operate in isolation from the policy makers, and does understand the policy constraints: similarly, the policy makers must understand the importance of public relations). I do not necessarily want to suggest a formal Cabinet Office-serviced committee for this purpose: but somehow, the two sides will have to be brought closely together. You might therefore defer a final decision on the machinery at this stage.

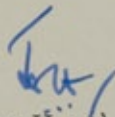
CONCLUSIONS

6. If the discussion proceeds along the lines suggested by Mr. Hoskyns, you will be able to report conclusions broadly as follows:-

- (i) To approve the short list of 'priority items' set out in Appendix A to his paper, with any additions or subtractions agreed at the meeting.

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- (ii) To allocate the responsibility for the four groups of subjects in that Appendix to the Chancellor of the Exchequer; the Secretary of State for Industry; the Secretary of State for Employment; and the Secretary of State for Trade (in that order), A - D), inviting each to produce a separate report on his group of items to this committee for discussion in the third week of September.
- (iii) To invite those Ministers whose Departments are shown as in the lead, for each of the remaining items listed in the CPRS paper, to consider these suggestions further, and to report their results to the CPRS by mid-January.
- (iv) To endorse the main lines of the communications programme suggested by Mr. Hoskyns in Section 5 of his paper.
- (v) To note that you will consider further the best way of organising and running a communications campaign of this kind.


(John Hunt)

23rd July, 1979

Mr Lankester



R

cc. Mr Vile
Mr Spence
Mr Le Cheminant
Dr Thompson

STRATEGY - E(79) 24 & 28

Finding one's way about the CPRS and Hoskyns papers is a nightmare. App A of Hoskyns gives references back to the CPRS paper. You may find it useful to have this list which gives the references forward from the CPRS paper to the Hoskyns one. (I had to prepare it for my own purposes anyway). I suggest you pencil in the relevant 'Hoskyns' numbers in the margin of the Prime Minister's copy of the CPRS paper.

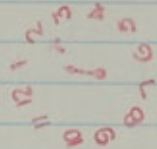
AM 21.7.

<u>CPRS</u>	<u>Hoskyns</u>	<u>CPRS</u>	<u>Hoskyns</u>
1. 1.	-	6.6	B. iv
1. 2.	-	6.7	-
1. 3.	-	6.8	-
2. 1.	A. ii	7.1	B. iv
2. 2.	A. ii	7.2	B. iv
2. 3.	-	7.3	-
2. 4.	-	7.4	-
2. 5.	-	7.5	-
2. 6.	D. ix	8.1	D. vii
2. 7.	-	8.2	-
3. 1.	-	8.3	-
3. 2.	C. vi	8.4	-
3. 3.	-	9.1	A. ii
3. 4.	C. vi	9.2	-
3. 5.	-	9.3	-
3. 6.	-	9.4	-
3. 7.	D. ix	9.5	-
4. 1.	C. vi	9.6	-
4. 2.	-	9.7	-
4. 3.	-	10.1	B. iv
5. 1.	-	10.2	A. iii
5. 2.	B. v.	10.3	A. iii
6. 1.	-	10.4	-
6. 2.	-	10.5	-
6. 3.	A. iii	10.6	-
6. 4.	-	10.7	B. iv
6. 5.	A. i.	10.8	-

[PTO

11. 1	B.v
11. 2	B.v
11. 3	-
11. 4	B.v
12. 1	-
12. 2	-
12. 3	-
12. 4	-
12. 8	-
13. 1	D viii
13. 2	D viii
13. 3	-
13. 4	-
13. 5	-
14. 1	-
14. 2	-
14. 3	-
14. 4	-
14. 5	-
14. 6	-
14. 7	-
14. 8	-

23 JUL 1979



Top Copy returned
to Mr Hoskyns.

PRIME MINISTER

E. 24 JULY - GOVERNMENT STRATEGY

1. The first item on the agenda centres on Appendix A of my paper - the selection of Accelerator measures from the CPRS list. (For easy reference I attach a copy of Appendix A.)
2. I suggest that, to save time, you stress to colleagues that it is more important to agree a list and thus get the programme of action started than to spend too long trying to get the contents of the list exactly right.
3. If colleagues feel strongly that certain items should nevertheless be added or deleted, this could be noted and the lead department (see 4 below) asked to look at such suggestions when they start work.
4. The copy of Appendix A attached has been marked with the Departments which Sir Kenneth Berrill and I feel should lead the work on each of the four main groups (A - D) of measures.
5. Sir Kenneth and I see no need for any umbrella committee for the whole exercise.
6. I take it you have no objection to Norman Strauss sitting in as an observer at the meeting, as he did in Opposition. I find it very helpful to have his reading of the mood of these discussions.

He said this is a Ministerial meeting - not Miscellaneous and I don't have notes of such meetings. Ministers both are in the Cabinet.

JOHN HOSKYNS

20 July 1979.

"ACCELERATORS"EAD DEPTCPRS List Numbers

Treasury

- A. "ENCOURAGE THE WEALTH-CREATORS"
- (i) Corporate taxation 6.5
- (ii) Personal taxation and differentials 2.1, 2.2, 9.1
- (iii) Entrepreneurship, small businesses 10.2, 10.3, 6.3

(NB: The additional proposals from the Secretary of State for Industry are particularly relevant to these measures.)

Industry

- B. "CUT THE RED TAPE"
- (iv) De-regulate industry:
- General and Regional 6.6, 7.1, 7.2, 10.1
 - Small firms 10.1
- (v) Free up housing and land 5.2, 11.1, 11.2, 11.4

Employment

- C. "RESTORE THE RIGHT TO WORK"
- (vi) Consider restrictive practices, closed shop, ACAS, EPA 3.2, 3.4, 4.1

(NB: Some of these are already in hand.)

Trade

- D. "LET THE MARKET ECONOMY SERVE THE PEOPLE"
- (vii) Competition policy 8.1
- (viii) Reduce public sector monopolies 13.1, 13.2
- (ix) Involve workers in their firm's success 2.6 and note to 3.7

(NB: (vii) and (ix) are especially "symbolic". They emphasize that a healthy economy should benefit everyone, not unions or bosses.)

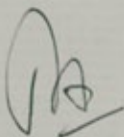
MR WHITMORE

STRATEGY PAPER

As I mentioned at lunch, the Prime Minister has seen the paper and agreed to its circulation (copy of minute attached).

18.7.79

I understand that it will be circulated under a cover note from Sir John Hunt. Can I suggest - if it does not infringe the rules of economy - that it is printed on one side only rather than both sides, as this makes reading it easier, and it is quite a lot to read.



JOHN HOSKYNS

19 July 1979

~~Mr Vile~~

We note.

Can you please have John
Hoskyns copy reviewed to the
case of - [unclear] note.

Mr Whitmore

Mr Vile
In hand

John
19iii

RM 20.7.

PRIME MINISTER

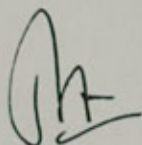
GOVERNMENT STRATEGY

I enclose a copy of the paper to be circulated for discussion at E on 24 July.

The paper requires final editing and correction. It will have a short Conclusion which summarises the paper and proposes an Agenda. The Agenda is:

1. What short list of measures do we select to start work on?
2. What should be the mechanics - committees etc - for progressing the work?
3. Is there agreement on the communications approach and the main elements of the communication programme?

Are you happy for this paper to be circulated under a cover note from Sir John Hunt?



Yes not.

JOHN HOSKYNS

18 July 1979

18 July 1979

GOVERNMENT STRATEGY: PAPER NUMBER 2

1. INTRODUCTION

1.1 Purpose of the Paper

This paper suggests a programme of action on selected items from the consolidated list of proposals circulated by the CPRS, and also on supporting communications.

1.2 Structure of the Paper

SECTION 2 - STARTING POINT: summarises the position reached at the discussion on 18 June.

SECTION 3 - "ACCELERATORS": proposes a short list of items from the consolidated list, on which work could start immediately.

SECTION 4 - THE RECOVERY PROCESS: summarises briefly the nature and timescale of the economic recovery process.

SECTION 5 - CHANGING ATTITUDES: summarises our model of the attitude change process and suggests the main elements of the communication programme.

2. STARTING POINT

2.1 The Government will stand or fall by its performance in turning the economy round. This means ending inflation and getting back onto a growth path in the first term, and maintaining the growth at "Western world" rates in the second term.

2.2 The first Strategy paper used the word "stabilisation". There may have been some misunderstanding here. It was not the intention to use that word in public communications, but simply as a label to describe the things that had to be done before real economic growth could be resumed. We agreed that "stabilisation" was certainly not a word to use in communications, as it suggested zero growth. However, we should be careful. Opinion research suggests that people are more worried about rising prices than about static living standards. We certainly don't want to raise people's hopes of a growth rate which will be impossible to achieve in the first 2 years. The lower the real growth rate, the greater the need for economic and social stability.

All previous Government failures have been failures to grapple with the central issues of inflation, productivity and suicidal bargaining. Until those problems are solved, the economy will remain extremely fragile and the Government will be as easily "blown off course" as Governments have been in the past.

- 2.3 We agreed that an incomes policy or freeze should not be considered. This would be a cul de sac, representing defeat on all our major policies. The only route open to us is continuing monetary discipline and sustained education and persuasion of the public and union leaders. The more successful we are in showing our absolute determination to follow this path, the more quickly will people come to see that bargaining attempts to get ahead of the inflation rate are (a) irresponsible because they cause unemployment, and (b) unnecessary because we have the power to squeeze out of inflation and were elected to use it.

We also discussed the possibility of publishing monetary targets 2 or 3 years ahead as part of this process of lowering inflationary expectations.

- 2.4 We said that we needed a suitable name for the recovery programme - for example Renewal, Restoration, Rebuilding, Reconstruction - and a list of positive "accelerator" measures.
- 2.5 A list of potential strike problems would be provided by the Civil Contingencies Unit.

3. "ACCELERATORS"

- 3.1 CPRS has circulated a consolidated list of proposals by Ministers.
- 3.2 The list is a long one and now goes beyond the original "accelerator" concept. But we should maintain it as an exhaustive list of all the ideas we have come up with so far. The question now is what we should select from the list for immediate action.
- 3.3 As we have said in earlier papers, policy measures are themselves the most powerful messages of all about a Government's values, its objectives, its determination. If we agree that the most important of our tasks is to jolt the British economy into life, then we should choose those measures which will be both beneficial in themselves and also have this psychological shock effect.
- 3.4 We should then aim to work up these measures during the summer, so that we can start to release them in the autumn. This would have the added effect of providing a background of positive

measures against which the (probable) moaning and posturing of the Trades Union Congress would look negative and inappropriate. We could even consider an "Accelerator Conference", in 1980, just before Congress, to make old-style union conference behaviour look even more inappropriate to the public eye. At present, union conferences get all the publicity.

3.5 Accordingly, I suggest the following short list of measures. Most of them were starred on the original list, though some of the starred items are omitted from this short list. The serial numbers of the items, on the main list, are shown for easy reference.

	<u>List Items</u>
A. <u>Increase Incentives</u>	
(i) Corporate taxation	6.5
(ii) Personal taxation and differentials	2.1, 2.2, 9.1
(iii) Entrepreneurship, small businesses	10.2, 10.3, 6.3(?)
(NB: The additional proposals from the Secretary of State for Industry are particularly relevant to these measures.)	
B. <u>Remove Barriers</u>	
(iv) De-regulate industry:	
- General and Regional	6.6, 7.1, 7.2, 10.7
- Small firms	10.1
(v) Free up housing and land	5.2, 11.1, 11.2, 11.4
C. <u>Free up the Labour Market</u>	
(vi) Consider restrictive practices, closed shop, ACAS, EPA	3.2, 3.4, 4.1
(NB: Some of these are already in hand.)	
D. <u>Encourage Healthy Market Economy</u>	
(vii) Competition policy	8.1
(viii) Reduce public sector monopolies	13.1, 13.2

	<u>List Items</u>
(ix) Involve workers	2.6 and note to 3.7

(NB: (vii) and (ix) are also "symbolic" policies. They emphasise that a healthy economy benefits everyone, not just unions or bosses.)

- 3.6 There are many other important items on the list. In particular, you will see that I have omitted some of the starred items (1.1, 1.2, 3.6, 5.1, 9.5, 12.2, 12.5). This is not because work should not start on them soon, or even immediately, but because I believe that we should concentrate, initially, on a small number of measures capable of generating the maximum communications impact.
- 3.7 If we can agree such a list, then we will need to consider the mechanics for progressing it.

4. THE RECOVERY PROCESS

- 4.1 This section briefly summarises the nature and timescale of the economic recovery process. That process is of course familiar to Ministers, but I think it is worth putting it down on paper because it can be forgotten under the pressure of day-to-day events. When that happens, the long-term perspective of Government Strategy is forgotten also.

4.2 Changing Individual Behaviour

The list of proposals circulated by CPRS reminds us that there are no new ideas for solving the UK problem. There is simply a large number of measures, all worked over many times before, each of which can do no more than move the system a little bit nearer recovery. In the end, everything depends on the aggregate behaviour of millions of individuals. This is why we have to invest considerable effort in communications - both policy measures and messages - which will alter attitudes and thus behaviour.

4.3 Getting the Framework Right

- 4.3.1 Getting the recovery process going is rather like moving a tree which has been planted in a place where it cannot thrive.
- 4.3.2 Once we have transplanted the tree, it will start to recover in its own time. So it is with the economy (or any other large self-organising system). There will still be accelerator measures we can take to ensure that it has every chance, but (despite the use of the word accelerator)

it is not easy to make it "go faster". That has to wait for the gradual change in inflationary expectations, economic understanding, the feelings of hope and progress, the emergence of entrepreneurial talent.

the culture must change

4.3.3

The main objectives of the Government's programme - restoring sound currency, reducing union power and thus freeing-up the labour market, reducing public spending and taxation - may seem too simple for intellectuals. But they are nevertheless the only way to bring about changed economic behaviour. There was never much hope that Government exhortation could change the anti-business bias of the education system or produce a technical design renaissance in industry, in a country whose top tax rates ranged from 83% to 98%. Those tax rates spoke more powerfully than any other message could about the value Britain attached to the wealth-creating process.

mark spelling

100

4.4 The Process Takes Time

4.4.1 Everyone knows that turning round one sick, medium-sized company can take 5 years of single-minded effort by a team of capable individuals. The result is not just financial health and competitiveness, but restored morale and confidence.

4.4.2 By contrast, we have seen Governments in the past trying to demonstrate success in two years and thus ensuring failure in five. We have to get the framework right, using all possible accelerators, and then wait for the results. Our main concern, during that waiting period, will be to maintain social cohesion and thus frustrate the efforts of left-wing activists - whether in unions or in deprived urban areas - to make things fall apart before the results can show.

4.4.3 In public spending in particular, the real benefits of today's efforts will show through in two to three years. As a newspaper article put it: "Ministers must say 'No', and keep on saying 'No', until their jaws ache". There will, of course, be exceptions, but they must be exceptions that prove the rule.

4.5 Government Style

4.5.1 All this means that Government must pace itself for the long haul. It is running a marathon, not a sprint. It has to have enough "slack" or resilience in its own system to handle the inevitable shocks and setbacks. It needs regular stock-taking to ensure that it has not lost its sense of direction and that it has learned the lessons of past mistakes.

4.5.2 Part of the Government's style should be the importance it attaches to communicating that style - "the way we think, the way we work" - to all who work in it.

5. CHANGING ATTITUDES

5.1 Nothing Will Happen Unless Attitudes Change

5.1.1 There is no possibility of economic recovery without different individual behaviour; no hope of different behaviour without different attitudes.

5.1.2 We need the new attitudes not only for revitalising the economy, but also for facing the J-curve stresses of the first two to three years. And we need major shifts in attitude to be sure of winning a second term.

5.1.3 We won't change attitudes unless we understand the process by which attitudes change. The next sub-section briefly recapitulates the original Stepping-Stones thinking on this.

5.2 The Attitude Change Process

5.2.1 The traditional model of political communications resembles a military bombardment, in which you bomb your audience into agreeing with you, shouting louder when they appear not to understand.

5.2.2 The model we have suggested in earlier papers is quite different. It is based on the private perception of reality by the individual. The analogy we used was the building of a model of, say, St Paul's, out of matchsticks. The structure would gradually take shape, but only when most of the matchsticks were in place would the observer suddenly realise the meaning of the model. At that point his attitude would start to change.

5.2.3 Each nugget of information that reaches him (a speech, two seconds on TV of the Grunwick pickets, an article, the report of a new wage claim, the plight of the Boat People) may only be one matchstick. This is why major speeches which take a great deal of effort to prepare are often not particularly cost-effective in communication terms. Their "yield" is usually only one or two matchsticks, in a few column inches. And of course they are discounted to some extent as propaganda, which live events - eg Grunwick, NUPE - are not.

5.2.4 Since in the nature of things we will seldom get everything right, it is a matter of making sure we take two or three steps forward for each step back. Of course there will be occasionally a rapid succession of matchsticks - as, for example, the events of last winter which altered the "mental sets", at least temporarily, of a significant proportion of the electorate. But whenever we get something wrong, a matchstick will be removed from the model.

- 5.2.5 The important thing to recognise is that the process requires many matchsticks and lots of time - usually years rather than months.

5.3 Our Approach to the Communication Task

5.3.1 Establishing the Criteria by which we want to be Judged

5.3.1.1 We must establish very clearly in the public's mind the "job you voted us in to do", with particular emphasis on its moral dimension, not just the economics. The electorate said that Britain just could not go on like this, that things had to change and that is why we are changing things.

5.3.1.2 The criteria of judgment must be relatively modest on economic growth. They will be high on ending inflation, whether we like it or not, because people will insist on holding us accountable for that.

We have to show that the healthy economy and the healthy society are closely related. Inflation is the obvious example of a breakdown in economic health leading to a breakdown in moral health.

5.3.1.3 Every opportunity must be taken, when responding to events, or presenting new measures, to do so in the context of this complete picture of what we stand for, what we were elected to do and our calm determination to do it. Government's style must proclaim our values (firm but fair, consistent, no favourites, treating people as adults and expecting them to behave in an adult way).

5.3.1.4 Similarly, every opportunity must be taken to teach economic realism. Public sector pay awards should be instantly translated into price or tax rises. The impact of possible future awards on prices, taxes or jobs could be explained in the same way. No more euphemisms, no more painkillers.

5.3.2 The Importance of Surprise

5.3.2.1 This was referred to in section 3.3 above. It is not invariably right to move slowly and cautiously when introducing change. This will be a matter for careful political judgment, but it may well be that the greater the problems, the greater the general fear and uncertainty among the public, the greater will be the need for boldness.

Check →

5.3.2.2 There are two main reasons why speed can be helpful. Firstly, it can make it easier, not harder, to push through radical changes before the defenders of the status quo can organise resistance to it.

Here → Secondly, shock treatment may be the only thing that will jerk the British economy and people out of its torpor. The widespread expectation that nothing will change (because nothing ever has changed, in most people's experience) is a major obstacle to recovery.

5.3.2.3 A good example of shock was the Budget. For thirty years Britain has dithered and agonised about whether it was politically possible to bring top tax rates down to the levels which have been accepted as perfectly normal in most other countries. Then, suddenly, it was done, and the heavens did not fall. The point is not the merits of the particular measure taken, but the sudden dismantling of the conviction that change is impossible.

5.3.2.4 If we agree that the British economy is on the verge of dying from an overdose of tranquillisers, then we may have to take some risks, with a succession of quite violent shocks, if we are to get its heart beating again. Too much caution may turn out to be dangerous.

5.4 Key Elements of the Programme

5.4.1 At present, we see the following elements:

- (i) Counter-Propaganda. This was referred to in the first Strategy Paper and is a long-term Party political programme geared towards the 1983 election.
- (ii) Economic Education. This is a Government-sponsored "facts of life" programme which has been discussed briefly at today's meeting of the Committee chaired by the Secretary of State for Industry.
- (iii) Head-Off. This is a programme to head off the immediate threat of absurd union wage claims and then to start moving the unions to a more constructive role. Norman Strauss is currently working on this, but the short-term part of it was also discussed at today's meeting of the Committee referred to above.

5.4.2 There will be other important parts of the communication programme. For example, a particularly difficult problem may be the countering of anti-nuclear propaganda. An effective counter-propoganda in that area requires very careful analysis and design. The programme itself could take years rather than months to be effective.

5.5

Co-ordination

5.5.1

An effective communication programme requires the constant search for opportunities, in terms of day-to-day events, to provide pegs on which to hang our messages.

5.5.2

We really need a small technical committee which meets frequently to ensure that we are right up-to-date, anticipating the events of the next few days and thus able to react fast to both opportunities and problems as they occur, in a way which is absolutely consistent with our long-term strategy (in other words, ensuring that we add further matchsticks, rather than allow someone to knock a few off).

VIEW

EXCLUSION

- Summary

- Agenda

SIR KENNETH BERRILL

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The Prime Minister was grateful for your note of 11 July on the role of the institutional investor. She would be grateful if the CPRS paper attached to it could be circulated to E Committee and put on the agenda for the strategy meeting on 24 July - though since it is not an action paper, it need not take up much of the Committee's time.

I am sending a copy of this minute to Martin Vile (Cabinet Office).

T.P. LANKESTER

Handwritten signature

16 July 1979

PART 3 begins:-

TL to Bewill 16.7.79

PART 2 ends:-

TL to. PM 13.7.79.

END

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