

Economic 1

Our economic policy has been a focus of debate. That is all to the good. But I have been struck by the incomprehension of this government's basic stance and vision demonstrated by the very terms in which some critics of our policies ~~have~~ expressed themselves. Let me try to clarify our views and aims beyond possibility of misunderstanding.

Our government is not committed to any particular school of economic thought. Economic doctrines have their place in the scheme of things, but in government what we think and do must be justifiable by reference to fact and reason, without appeal to any theories, except for the axiom that the laws of cause and effect operate in human affairs.

Economic policy must make moral ~~sense~~ and political sense, and appeal to common sense, if it is to make economic sense.

The moral dimension that is the basic Conservative tenet, ~~is~~ ~~relevant today as ever,~~ comes first, <sup>↓</sup> Morality is the foundation of society. If it is subordinated to expediency, or purely material aims, society disintegrates.

You cannot isolate economics from ethics. If the economic order is such that merit is habitually deprived of its just reward, then standards of behaviour deteriorate. We have seen it happen here. We were elected because we ~~pointed it out and~~ promised to put it right. We <sup>shall</sup> ~~remain determined to~~ honour this commitment.

Millions of hard-working people who lived within their means, paid their own way, put something by, in savings, insurance, perhaps buying their own home, have been robbed by inflation and high taxation, of the fruits of their work and economy.

They face poverty and lean times in old age. Side by side with this, people who were feckless, inadequate or less competent, have benefits lavished on them by armies of officials so that they are made better off than those who worked and saved.

Relief of poverty is a Christian duty. But when thrift and work are penalised in order to reward their opposite, you will end up by morally destroying those you intended to help. You will *also* demoralise those engaged in taking and giving, not sparing politicians who base their careers on appealing to envy and greed.

Lastly, within a generation or two, you destroy economic and civic virtues among the classes of society who are sacrificed to pay for the political auction. That is why we must bring this auction to an end before it is too late. History is littered with the wrecks of societies whose rulers, whatever their motives, demoralised their subjects by short-sighted measures of this kind. Our duty is to save this great nation from that fate.

I said "robbed by inflation" advisedly. Inflation is, first of all, a moral issue, and secondly, a reflection in the economic sphere of fallacious ideas sprung from moral cowardice.

Whether you prefer to read Keynes, Friedman or any economic thinker, going back to the Eighteenth Century, inflation arises because government creates more claims on monetary resources than can and will be met. That is the essence; All the rest is technicality.

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But if this is so, why do governments inflate?

They do so because they promise more than they can perform,  
leading to a welter of irreconcilable claims.

They then arbitrate <sup>between these claims</sup> by creating more money, so that everyone has  
the monetary illusion that their claim is met, while actually receiving  
less.

A generation has been brought up to believe that Government can guarantee  
prosperity, full employment, happiness for all, irrespective of each  
person's contribution. Personal responsibility is replaced by collective  
responsibility. But you cannot have a responsible collective with irresponsible  
individuals and pressure groups.

5.

So Claims proliferate, <sup>while</sup> the wherewithall to meet them declines.

Full employment does not lie within the Government's power to assure, though wise measures can help, over time, and unwise measures undermine employment, as we know. Employment depends on every member of the labour force, in or out of employment, <sup>on</sup> their keenness in seeking work and giving a fair day's work, their adaptability, readiness to acquire skills, to move, to accept reasonable manning levels and wages.

Employment also depends on free enterprise or ability to create new workplaces and maintain existing ones. State industry does not create profits, but losses, whether these are financed out of taxation or by monopoly prices.

But because workers and their unions have been encouraged to believe that however unreasonably they act, government will bail them out, <sup>industry has been weakened, so</sup> employment has been eroded. To bail them out, governments, <sup>voluntarily or under coercion,</sup> create money, <sup>so</sup> price rise, more enterprises are squeezed out of existence, <sup>and</sup> unemployment rises faster than artificial generation can replace.

6.

This is not economic theory, this is bitter experience. Over the past twenty five years government after government has fought unemployment and fought inflation.

Yet, over this period, taking one stop-go cycle with another, unemployment has risen steadily. inflation has risen steadily, we have lagged steadily behind our European partners in production and living standards.

Had it not been for North Sea oil, discovered and developed by the private multinationals, we should have slipped already into a permanent crisis of hyper-inflation and deep inflationary recession, straining the fabric of our society. That prospect has been averted by North Sea oil for the time being, but no<sup>+</sup> indefinitely.

That depends on us.

This is where we came in, in 1979. After the winter of discontent, an explosion of ~~blind~~ trade union frustration at the actual results of the policies they had imposed on the Labour Government. They were frustrated because when so many of them produced less they were still unable to consume more; <sup>They were resentful</sup> because unemployment had increased when they had priced themselves out of jobs and eroded the profits and profit-opportunities which are a pre-requisite for expansion of employment. The unions were furious at their own government for not repealing the laws of cause and effect, as it had promised. So they vented their fury, showed up the social contract for the sham it was, and won us the election.

~~But~~ We came in after a pre-election boom which Mr Healey began in 1978. It was due to generate a renewed bout of inflation and inflationary recession by 1980.

We inherited this time-bomb together with an unprecedented wages explosion, <sup>This</sup> ~~which~~ caused unemployment to soar in the private sector, <sup>first</sup> by pricing workers out of jobs and <sup>secondly</sup> ~~because~~ the private sector suffered economic haemorrhage to finance the public sector-wages explosion. [Three courses of action were open to us.]

The first was to do what other governments had done in the past: ride the wave of inflation and hope for the best. Prices and wages would have chased each other. Unions with muscle, which does not necessarily reflect the measure of the contribution to society, would do best. But in the end everyone would be worse off.

We should have bought short-term popularity at the cost of our nation 's future.

There was no lack of voices urging this course on us:

Socialists, the TUC and their tame academics, some shortsighted people in our own camp. It was even argued that to reduce unemployment, we should <sup>reflate (just as</sup> ~~have done what~~ Keynes recommended in the ~~exactly opposite circumstances of~~ the inter-war recession <sup>But then</sup> ~~to reflate~~ when prices were actually falling, whereas now, inflation is the cause of unemployment.

A second course urged on us was wage and price controls, a <sup>re</sup>play of a game we always lose.

The third course was to honour our election pledge and reduce the rate of inflation by resisting the temptation to print confetti money - as a Labour MP frankly called it.

10.

These decisions were embodied in our medium-term financial strategy.

Its success has been contingent on control of public spending, and on

convincing the public that we really mean to stick to our strategy. We faced a

~~For on the one hand, this was a very~~ real economic predicament. *The socialists had repaid*

*union financial contributions*

By nationalising healthy profitable firms in steel, shipbuilding

and other industries and turning them into dependent state-pensioners. *This*

~~the socialists had~~ created a drain on resources, ~~and~~ a dilemma

for a reforming Government. Could the government

afford to shed Labour in these industries, whether to slim them

down or close them down, before demand for labour had picked

up in the private sector?

But could the private sector, <sup>*itself*</sup> ~~already~~ over-manned, regain the buoyancy

necessary to create real new additional jobs, ~~particularly~~ during a

world recession, so long as it had to carry the heavy burden of taxation

and monopoly prices need to prop up the swollen public sector? We needed

time to extricate ourselves from this thicket.

We have been further hindered by a <sup>national</sup> crisis ~~of~~ belief. We are not the first government to announce that it would live within its means. But we are the first to try seriously to honour its promise. As a result we face widespread, and understandable scepticism. Each pressure group tries hard to get to the head of the queue, as they have been accustomed to do.

It will take time before people realise that we mean what we say, and base their behaviour on this. But we have to slog on till people do realise and act accordingly.

There is a silver lining to the cloud. Unemployment is one side of the coin; reduction of overmanning and restrictive practices, and real increases in productivity are the other side. Because overmanning was worse here than in most industrialised countries, when we shed it, unemployment <sup>has been</sup> ~~was~~ the heavier. But the result has been a massive rise in productivity in private industry and services, 11% per year.

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It is rare for increases in productivity to be achieved during a recession, particularly a world recession. An increase on this scale is unique.

We achieved this increased productivity, not least because of a new mood of realism among the workers created by the recession. They showed greater understanding than their unions, and faced up to the militants. They have been aided by our reforms in trade union law and practices. Our new legislation, completing the reforms we were elected to introduce, will help this process along further.

But we do not want realism to rest on recession and unemployment. We want a realism, a sense of partnership which will continue to grow when the lean years give way to expansion. Trade union legislation is only one means to this end. We must convince our working population, in factories, shops and offices, manual clerical and professional, that realism and a sense of partnership are essential to their own interests. If we cannot do this, we shall never escape the stop go cycle and will be lucky to avoid further decline.

This is not a task for government alone. All of us in this <sup>e</sup> party <sup>hall, in this</sup> ~~hall~~ <sub>w</sub> all who wish our country well, have a part to play.

Moreover, this sense of realism will not survive unless we can bring the public sector monopolies, with their privileged monopolised unions, into line. Otherwise resentment among private sector workers will provide a new seed-bed for militancy, leap-frogging claims, an end to recovery. That is why we must tackle <sup>outrode</sup> public sector privileges before they sap our energies irrecoverably.

We take these steps because economic recovery is indivisible, and only economic recovery will make it possible to strengthen our social fabric, The moral and material are inextricably inter-related. (SJ Stevas rebutted). Our task is not easy, because things have been allowed to slide a long way.

As a party, unlike the socialists, we do not enjoy picking over old sores. We do not believe in using the wisdom of hindsight to score points off fellow Conservatives. All of us have done our best according to the way we saw things.

But we Conservatives, ~~by virtue of unreflecting theory by practice, are committed~~ <sup>to using</sup> ~~to pragmatism, which means benefiting from~~ the wisdom of hindsight to guide our <sup>present</sup> steps.

I cannot promise you that we shall not make mistakes.

Indeed, I could almost assure you that we shall.

But I can undertake that we shall not make the same mistake twice,<sup>9</sup> nor shall we re-enact past mistakes.

Those who would have us to do otherwise must ask themselves whether they are not making themselves prisoners of their own past. But we shall not let them make us prisoners, ~~and~~ I know that your commonsense will be <sup>with</sup> ~~behind~~ us in this.