

ALAN WALTERS

DRAFT PIECE FOR PRIME MINISTER'S SPEECH AT BLACKPOOL

We came into office at the end of a long winter of discontent. Britain, for many years the sick man of Europe, was yet again in a crisis. The Labour Government had tried the old trick of an election-year boom. And these reckless expansionary measures of 1978 were bound to generate yet another ugly bout of inflation by 1980. So they did.

We knew also that they would not have any lasting effect in reducing unemployment. But even more worrying was the fact that we inherited the most enormous explosion in wages. The fear of being left behind in the scramble to get on the rapidly moving inflationary bandwagon, saw wage settlements leap far ahead of productivity.

Labour became so expensive that the number of jobs was beginning to decline sharply. Business profits, the source of all jobs, were rapidly eroded. Unemployment was bound to grow to high levels over the next two years.

There were three ways of dealing with these grave problems. First, we could have inflated yet again. This, after all has been the standard response of all government since the War.

/Prices

Prices would have chased wages in the all too familiar spiral. But in any such race everyone, wage earners, businessmen and Government would be eventually the losers. So we firmly rejected this familiar soft option. A second alternative would have been to impose draconian wages and price controls. We rejected this. Again they have been tried over and over again. Controls are as old as history and they have always failed.

Instead, we adopted a third alternative. We honoured our election pledge. We introduced a policy to restore faith in the value of money. To reduce the rate of inflation to low single figures.

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Of course, the sceptics scoffed and the doubters demurred. After all, from one government or another over the last 20 years we had heard that they were going to defeat the dragon of inflation. But after a year, or even two, when the going got tough they yielded to what were enticingly called flexible policies. And so the paper money chase went on at an ever-increase rate. Of course the lessons of this sorry history were not lost on the people. They knew that government would never persist in its policies; so people built the pretensions

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of governments into their behaviour. They knew it would all end up in yet another surge of inflation. "Put not your trust in political promises". They will print the notes to buy the votes.

This was a crisis of belief. Everyone had to be convinced that this government was no push-over. After all these years of drift it was no easy task. But it was now or never.

So we set out ~~on~~ policy in the medium-term financial strategy. This required the Government increasingly to live within its income and to stem the familiar flood of paper money. The goal was a return to sound money and honest finance. Over years the budget would be nearly balanced (with a deficit in recession years and a surplus during the boom). With such balanced budgets the government does not need to drain away the vast savings of our people in order to finance the excess public spending. The private savings can flow freely to finance the private investment on which our future is founded. This is the goal of our financial policy.

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optimistic

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Of course it would have been rash to expect that this reform could be achieved quickly. It needs time. People have to be eased gradually out of the bad old habits. But we have made a start.

These last two years have witnessed the first and most difficult stage of any reform. The bitter consequences of the wage explosion in 1979 were the unemployed of 1980 and 1981. And it will take a long time for the recent moderation in wage rates to be reflected in new jobs. Meanwhile much has been done to ease the lot of the unemployed. We have developed schemes to assist job creation both for adults and youths. But one thing we shall not do - inflate.

The principle of sound finance was the lynchpin of the budget last March. Although the calls for inflation were then loud and insistent, we ignored them.

And how glad I am that we did so. Today we see the British economy slowly, but inexorably turning. In industry it marks both the end of an era and a new beginning. Our faith is that over this decade Britain will regain her position as one of the great prosperous leading nations of Europe.

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Of course some will find it difficult to keep this faith through these dark days of European slump. Like Germany and France, we have suffered a sharp fall in economic activity. Unless we were prepared to throw up enormous currency and trade barriers (even against our fellow Europeans) we could not avoid the great contraction of 1980/81. Europe has suffered increases in unemployment to levels which we have not seen for many decades. Britain's unemployment rose even higher than that of almost all other countries in Western Europe. And you may well ask why did poor Britain have to bear the brunt?

The answer, alas, is all too simple and too sad. Since World War two, British industry has steadily fallen behind our many competitors in America, Europe and Asia. The foreign image of our overmanned, over-unionised, poorly managed and frequently strike-bound production lines has been only too correct. But there are now unmistakable signs of a renaissance in our much maligned industry. The over-manning which has plagued us so long is now being eliminated. Workers are being freed from restrictive practices. However, the shedding of labour has added to the ranks of the unemployed. Thus because of the reduction in over-manning we have had to endure the sad consequence of a larger increase in unemployment than other European economies.

/But the good

But the good consequences are that productivity has increased by an annual rate of 11 per cent. Eleven per cent. This is a performance of which Japan or Hong Kong would be justly proud. And British industry has achieved this not in the passing euphoria of some artificial inflationary boom (as in 1971/72) to be frittered away in the years of decline that followed. British industry has chalked up this wonderful achievement in the worst world depression in post-war Europe.

If industry can perform so magnificently against all the odds and against the grain of history in the depression, what can we expect when the world pulls out of this present phase of stagnation? Is this leap in productivity not the first sign of the British economic miracle which we have all been seeking so vainly for so long? Alas, it would be rash to conclude so. We still have a very long way to go.

To ensure that this is the firm basis of the British recovery, we must press forward with the reforms which we were elected to carry through. These massive productivity gains in private industry were achieved in spite of the restrictive power of trade unions. Workers who were faced with a choice between maintaining ancient restrictions and keeping a job usually chose the job. But when recovery comes and the threat of imminent unemployment recedes, who can be sure that the traditional restrictive practices will not return? We must make sure they do not. For this reason as well as in the interests of social

justice we must accelerate our programme for the reform of trades unions which we began with the Act of 1980. Of course we must proceed with care. But we must not miss this opportunity to remove many of the unions legal privileges and immunities which have plagued us for so long. The chaotic disruption of production lines must cease to be practised with impunity and immunity. The spoilers must be made to pay.

Yet union monopoly practices in the private sector are overshadowed by those of the unions in the public sector. The great state monopolies in energy and transport and their trade unions form a concentration of power and privilege which is a looming threat to our recovery. Free from the relentless pressures of the private sector, they have shed little labour and awarded wage and price increases far above those in private industry.

There is only one sure way to deal with monopolies. Make them meet competition. We must get private incentives, and the ceaseless search for efficiency and effectiveness, into these industries. Again, we have a long way yet to go.

In 1979, we were elected to restore private incentives and initiatives and to roll back the creeping encroachment of the state on all our lives. We started with a cut in rates of income tax so that people can enjoy more of the fruits of their labour. But such reductions have to be matched by slowing down the growth of public spending. This is a challenge we still face.

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These are the issues - and you know our policy. If we hold firm to our policy, there is every hope that 1982 and 1983 will see the first tangible fruits of success. When the expansion gets under way, it will be based on solid achievements in productivity, not on the fragile basis of paper credit. It will be sustainable, not a boom followed by a bust. We shall never be reckless. We shall never throw away all we have so painstakingly achieved.

Of course, all this ultimately rests on our belief in the people of these islands. It is they who must seize the opportunities. It is they who must clear away the tangled web of restrictions and prejudices. Given the right incentives I believe they will.