

TO ALL MEMBERS OF THE LEADERS CONSULTATIVE COMMITTEE  
SPEECHES AND PARTY POLICY

It was recently suggested that it might be helpful for members of the Shadow Cabinet to see on a systematic basis key articles and speeches by colleagues setting out the developments in party policy. I therefore attach:-  
Sir Geoffrey Howe's speech of 13th June and Mr. Prior's speech of 14th June.

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## NEWS SERVICE

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Extract from a speech by the Rt. Hon. Sir Geoffrey Howe, QC, MP, (East Surrey), Opposition Spokesman on Treasury and Economic Affairs, speaking to a meeting of constituents at Gibbs Cottage, Pains' Hill, Limpsfield, on Friday, 13th June 1975.

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Today's catastrophic increase in the Retail Price Index is the direct and inescapable responsibility of the present Government. The accelerating rate of inflation is beyond doubt the most serious element in Britain's worsening economic plight. It is still not too late to take action that can begin the reconstruction of our economy. But we are now perilously near the end of the line.

The action that must be taken will be severe. It will need to be sustained. And it needs to be taken now.

Responsibility for taking that action rests squarely upon the shoulders of the Prime Minister and his present Cabinet. Mr. Wilson has been fortified by the result of the Referendum. His Cabinet includes a Chancellor of the Exchequer who claims to be an economic realist, and two former Chancellors, who seek to present themselves as men of common-sense and courage. If Mr. Wilson fails to summon up the courage to act now, he will forfeit the confidence of the nation.

It would certainly not be right to lay all the blame for our present difficulties upon any one group of people. But one conclusion is inescapable. The inflation which is now roaring ahead is undoubtedly the consequence of the sins of the present Government. They have done those things which they ought not to have done and have left undone those things which they ought to have done.

/Let me begin....

Let me begin with the sins of commission. The current inflation is made up of two main elements. The accelerating rate of wage increases. And the higher indirect taxes which this Government has deliberately imposed.

The first of these things is directly attributable to the disastrous wage guide-lines of the Social Contract. And the second must be blamed upon the Government's own extravagant expenditure, which cannot be excused or disguised by describing it as the "social wage".

Take the Social Contract first of all. This Government came to power at a time when the oil crisis had knocked about 7% off the value of our national income. This external blow should have led, as it has done in other countries, to a reduction in real living standards, of Government and people alike. That was the basis upon which Tony Barber acted to cut public spending in December 1973. It is the duty of government, any government, to make all this clear to the TUC as well as to the people. If Labour's programme was to be founded, as it was, upon a set of guide-lines contained within the political package of the Social Contract, then those guide-lines should have reflected the stark reality of our economic situation. They should have been designed to ensure that, for a year or two at least, wages grew less quickly than prices.

In the result the guide-lines have produced exactly the opposite result. They have ensured that most - although not all- wage earners got at least as large an increase as the rise in prices. Many workers have been able to get even more than that.

The inevitable consequence has been to accelerate, and not to reduce, the rate of price increases.

To make matters worse, the terms of the Social Contract have fixed in the public mind the dangerously misleading principle that it is right to compensate ourselves for higher taxes and prices by securing offsetting increases in pay.

/In the result....

In the result, the Social Contract has institutionalised a wage-price spiral more catastrophic than anything gone before. The Social Contract embodied all the vices of indexation without any of the virtues. The Social Contract has turned out to be an engine for creating inflation, and not for cutting it.

To all this the Government added a second generator of more inflation.

Not content with encouraging the individual to claim money wages beyond the nation's capacity to pay, the Government, claiming to fulfill its side of the Social Contract, has increased Government spending by more than 50% above the level in our last year in office. More than 50%!

An increase of £20 billion! All this at a time when production was stagnant. And the nation's real income had been sharply out. This upsurge in Government spending went far beyond what the nation could afford.

This burgeoning load of public spending also went far beyond what the taxpayer is able or willing to finance. Much of it has depended on borrowing from abroad. The taxpayer has been required to meet only half the increase in Government spending. The balance, about 10% of total national income, has had to be borrowed. The time is very near when the Government will only be able to finance this huge deficit by massive printing of money. And that way lies the next step towards disaster.

In what ways has this Government left undone those things which they ought to have done?

There are six major tasks they have neglected and which must be set in hand immediately:

First, the Government must speak, and act, with a united determination to overcome the dangers of inflation. Some Ministers have been eloquent in words. "The party", we have been told, "is over."

/We face....

We face "the greatest danger since Hitler". The country is set upon "a suicide course".

This has been the message of some Ministers. But others have remained silent. And none has been effective in action. Each and every member of the Cabinet must now speak in unison and act accordingly. Only the Prime Minister can bring about this necessary change in course.

Second, the Government must at last spell out in plain language what will be involved in putting our economy right, and in adjusting to the loss of wealth resulting from the oil crisis. Since the nation's total income has been effectively and sharply reduced, then it must be explained with total candour that:

- public and personal spending must fall more than proportionately, in order to free resources for export and investment.
- we must cut back on the massive borrowing which shores up the present unrealistically high levels of spending.
- profits, the life blood of investment, have got to be rebuilt;
- wages must grow, at least in the short-term, less quickly than prices.

Third, the massive overspill of public spending has got to be reduced. It is the direct responsibility of the Government to undertake the necessary action to correct this gross imbalance. Routine spending programmes will have to be curtailed. A start must be made this year. Failure to face up to this painful choice will only store up even greater hardships for the future.

In local government throughout the country spending has continued to expand. Along with soaring wages, this is the main reason why rates have leapt to levels that threaten, quite literally, to destroy the system. Town Halls, motorways, swimming pools, lay-bys-things like this will have to be put off. But we shall have to come much closer than that to make really difficult choices. Better pay for teachers or more teachers? Higher council rents or fewer home-helps and meals-on-wheels?. These are only some of the choices that will have to be made.

And, equally important, expensive and unproven proposals for the nationalisation of oil, land, aerospace and ship-building have got to be abandoned.

Fourth, it must be recognised that growing public sector wages are the main fuel for the explosion in public spending. There was a time when public sector wages used to follow the lead of settlements in the private sector. In the last year the boot has been firmly on the other foot. Public sector wages have been setting the pace for the private sector, where rising unemployment and falling demand would, in other circumstances, have led to much swifter reduction in the level of pay settlements. As the biggest employer in the country, the Government must, from now on, have the courage to act upon, and to uphold, its own policies.

Fifth, the many damaging features of the Social Contract must be replaced. This must be the main theme of the Government's discussions with the unions and (at last) the CBI. This is why I welcome the growing sense of realism that is now being displayed by some of those who will take part in those discussions.

Statutory ceilings on the level of pay settlements have been seen to create enormous difficulties.

/ By themselves

By themselves they have never succeeded in their declared objective of permanently controlling inflation. What is more, they undermine productivity bargaining, destroy incentive, create glaring anomalies. And, most important of all, they do not last for ever. The implication remains that a return to freedom lies ahead. The Commencement of a "statutory policy" can often seem attractive. The subsequent stages become more and more difficult. And the "exit" is the most difficult of all.

This certainly does not mean that Government should withdraw from the wage dialogue which is now to take place between both sides of industry. On the contrary. It is the clear duty of government to convince those who fix prices and wages of their settled determination to beat inflation and to make plain what follows from that. This is the only way to change people's expectations about the future rate of inflation. It is these expectations that are critical to any wage settlement.

Government must seek to secure a clear understanding which:

- leaves no room for doubt about the Government's determination to control its own spending at a level that is consistent with a much lower rate of inflation;
- makes it plain that wages must grow more slowly than prices for some time to come;
- does not, by any misleading form of indexation, justify wage increases which offset higher tax or import prices;
- permits the restoration of industrial profitability and the investment which depends upon it.

This means that any intensification of price control would be dangerous and unacceptable. Artificial price restraint as such is - paradoxically - exactly what we cannot afford and must not have.

/ It leads directly

It leads directly to bigger government subsidies and so to higher public spending and more inflationary pressure. And it would destroy the already paper-thin profitability of the private sector. It is the express route back to the wasteland. The way to more bankruptcies, and still higher unemployment

Finally, the Government must plan its own spending in a different way. It must, as firmly and as quickly as possible, set cash limits to the spending of Government, central and local, and of public corporations. And those cash limits must be fixed upon the basis of a sharply reduced rate of inflation. Astonishingly enough this doesn't happen already. Governments have planned their spending in recent years in a way in which no housewife or private citizen could afford or even understand. Government has proceeded on the assumption that sufficient money will be available to meet any inflationary increase in the cost of government programmes. And the cost has always been made available. So the inflation has been fed.

Cash expenditure ceilings must be set, for the following reasons:-

- To establish the level of spending that reflects the restraint that is necessary if we are to live within our means.
- To cut back public outgoings into line with the revenue which government can successfully aim to raise by taxes and other charges.
- To force all those responsible for spending decisions at the operational level to secure understanding, from their work force and the public, of the painful choices which lie before the nation.

/ By setting cash



By setting cash limits in this way for local and central government services and in areas (such as transport) which depend upon subsidy, the Government will directly imply, but not dictate, a view about average income increases in the coming year. If nevertheless higher pay settlements are made, then there will have to be offsetting economies as well.

Ministers will have to make it crystal clear that the extra money will not be printed, that the taxpayer will not foot a higher bill. If a public sector service agrees to pay more, then it will have to pay less. This is the only way to establish within the public sector some of the essential disciplines of private enterprise.

By establishing in this way that there are, and must be, limits to the cash available to the State, the Government will be able simultaneously

- to reduce unrealistic public expectations
- to restrain public spending
- to check the growth of public sector wages
- and to oblige unions, citizens and public authorities alike to face the inescapable choice between higher wages and prices and fewer jobs and poorer services.

## NEWS SERVICE

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Extract from a speech by Rt. Hon. James PRIOR, MP (Lowestoft) Opposition Spokesman for Employment, speaking in his constituency on Saturday, 14th June 1975.

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There is no excuse for any further delay by the Government in replacing the Social Contract and dedicating all its policies to the fight against inflation.

Throughout the last year Opposition spokesmen criticised the inadequacy of the Social Contract as a means of curbing inflation. Such remarks were roundly condemned by Government Ministers. "It is the only way," we were told. When the Opposition suggested improvements to the Social Contract to give it a better chance of working, they were just as curtly dismissed.

But now at last the Government's unanimous certainty is beginning to falter. The Chancellor these days is grim-faced and grim-phrased. And the Environment Secretary, Mr. Grosland, has just warned us that the country is on a suicide course. He and some of his colleagues (the supposed 'economic illiterates' in Mr. Foot's phrase) are waking up at last to what most of us have known for a long time. And if there was any lingering doubt in his or anyone else's mind, it should have been wiped out by yesterday's shattering figure for retail prices - (4% up in one month, an increase which not so long ago would have taken a year. And an annual rate of nearly 50% if one uses the Healey formula which produced the famous 8.4% of last autumn's election campaign.)

/These latest....

These latest figures show that not only has the Social Contract failed to cut inflation, it has made it worse, far worse. The Social Contract has been prayed in aid by all those who have stoked the fires of inflation with excessive wage claims over the last twelve months. And, of course, they have practically always been encouraged by Mr. Foot, the Employment Secretary, who can manage to interpret almost anything as being within the terms of the Social Contract. It is this vagueness which has made the Social Contract the very reverse of sensible policy. The Social Contract has meant everything and nothing. Everything in terms of immediate cash, nothing in respect of reducing inflation. The problem is being made no easier to solve by the Government's own excessive spending which will foolishly and wantonly set the Bank of England's printing presses rolling.

Despite the occasional display of ministerial frankness, the Government is still not taking adequate action to meet the situation. The more it dithers and dallies the more severe the measures it will ultimately be bound to take. The classic example is provided by the current Prime Minister's handling of the situation in 1966. He never seems prepared to face up to events. What more telling evidence than of the last week does he require? The country cannot afford to wait whilst he sorts out his internal party difficulties. As each day passes the risk of failure and disaster grows more real.

So what should the Government do? It must spell out to the nation what inflation unchecked is going to mean - the £70 postage stamp economy which Geoffrey Howe has so vividly described; the worthless pensions and savings; unemployment on a mass scale; the decay of our social system. The Government must puncture the false and dangerous expectations aroused so irresponsibly last year in the Chancellor's vote-buying binge begun at a time when our national wealth fell a substantial amount because of the oil crisis. That fact - the loss of wealth and its painful consequences for us all - must be frankly explained, not concealed behind price controls, subsidies and a smoke-screen of petulant optimism.

/And the Government....

I don't deny that there are difficulties in drawing lines, but we have now begun to sample the consequences of a year of not drawing them. The result is total confusion in people's minds as to what is expected of them and an inflation rate which has leapt to the top of the disaster charts. In a crisis the people expect their Government to show some determination. This administration through a combination of incompetence, doctrinal Socialism and misplaced social conscience shrink from effective action. Their failure to take tough and unpopular measures on wages and public spending now will surely bring more hardship to more people in the end. It is precisely because Conservatives are concerned with the long term welfare and prosperity of our people that we call for urgent action. What we need is nothing short of a policy for survival. And we need it now.

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