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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

STRATEGY

Note by the Secretaries

The attached paper by Mr John Hoskyn, Special Adviser to the Prime Minister, is circulated for consideration at the meeting of the Ministerial Committee on Economic Strategy to be held on Tuesday 24 July. It will be considered under item 4 of the Agenda together with the note by the Central Policy Review Staff (E(79) 24) which has already been circulated.

Signed JOHN HUNT  
P LE CHEMINANT  
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Cabinet Office  
20 July 1979

GOVERNMENT STRATEGY: PAPER NUMBER 2INTRODUCTION

1.

Purpose of the Paper

1.1

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. The short list itself is shown at Appendix A.

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.

SECTION 6 - CONCLUSION: summarises the paper, proposes Agenda at Appendix B.

2.

STARTING POINT

2.1

This Government will, in the end, stand or fall, like any other, 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 two 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 unions' attempts to get ahead of the inflation rate are (a) irresponsible because they cause unemployment, and (b) unnecessary because we have the power to end inflation, and intend to do so.

We also discussed the possibility of publishing monetary targets two or three 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 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 back to life, then we should choose those measures which will be both beneficial in themselves and also have this psychological shock effect.

3.4 Accordingly, I have proposed a short list of measures grouped together under appropriate political messages. See Appendix A.

I am not suggesting that the messages shown in Appendix A are literally used as slogans. They are intended simply to show that each new measure must make an immediate political point, as well as having beneficial long-run economic effects.

3.5 There are other important items on the CPRS list. In particular you will see that Appendix A omits 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, but because I believe that we should concentrate, initially, on a small number of measures capable of generating the maximum communications impact.

3.6 If we can agree such a list, we will then need to consider the mechanics for progressing over the next two to three months, with a view to announcing the first measures in the autumn.

3.7 There are, of course, other major issues (eg energy policy, micro-electronics, the Post Office) which involve many Departments, huge investments, long timescales, and where the penalties for not "getting it right" will be very large. But these have not been considered here.

#### 4. THE RECOVERY PROCESS

4.1 This section briefly summarises the nature and timescale of the economic recovery process. This 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 can be 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 from a position where it cannot thrive, to one where it can. It is the job of "getting from here to there".

4.3.2

Once we have transplanted the tree, it will start to recover, but it will take its own time. So it is with the economy (or any other self-organising system). There will still be an accelerator measures we can take to ensure that it has every chance, but (despite our choice 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 has to 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.

If the framework is wrong, nothing else can come right. For example, 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 tax rates ranged from 83% to 98%. Those tax rates spoke more powerfully than any Government message could do about the value Britain attached to wealth creation.

4.4 The Process Takes Time

4.4.1 Everyone knows that turning round one sick, medium-sized company can take five 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. The firm's ethos has to be rebuilt.

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 stocktaking 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.

## CHANGING ATTITUDES

### 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.

### 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, one or two matchsticks will be removed from the model we are trying to build.

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 Establishing the Criteria by which we want to be Judged

5.3.1 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.

5.3.2 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.

5.3.3 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).

5.3.4 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.

5.4 The Importance of Surprise

5.4.1 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.

5.4.2 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.

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

5.4.3 A good example of shock was the Budget. For some years past, Healey had admitted the need for a switch of emphasis to indirect taxation. For thirty years Britain had dithered and agonised about whether it was politically possible to bring top tax rates down to the levels which were accepted as perfectly normal in other countries. Then, suddenly, both things were 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.

5.4.4 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.

## 5.5. Key Elements of the Programme

5.5.1 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 18 July 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 18 July meeting of the Committee referred to above.

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



## Co-ordination

5.6

5.6.1

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.

5.6.2

We really need a small tactical 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).

6.

## CONCLUSION

6.1

This paper can be summarised as follows:

- (1) Reducing inflationary expectations is our most urgent task. We have to show that it is employers and unions who, between them, can decide whether to create or destroy real jobs. Government's job, which it can do without any doubt, is to restore the currency. This separation of responsibility for a stable currency on one hand and employment on the other, is crucial.
- (2) It is for us, not our political opponents, to establish the criteria by which our record in office will be judged. That is an important part of our communication programme.
- (3) Economic recovery can only flow from changed individual behaviour. That requires, in turn, changed individual attitudes.
- (4) Changing attitudes is a stick-on-stick business. It is neither simple nor obvious. It requires its own strategy, and painstaking co-ordination.
- (5) In changing attitudes, Government actions speak louder than words. We have to choose policies which are themselves strong statements about change.
- (6) There are no really new policy ideas. The new ideas have to come in political communication.
- (7) Economic recovery is a slow process. Every year, Government reaps the rewards or penalties of decisions made between two and about ten years earlier. Everything

depends on clarity of objectives, patience and (in Disraeli's words) "constancy to purpose". The electorate have to understand this, too.

Appendix B suggests an Agenda for 24 July.

6.2

- A. "EXCHANGE THE HEAVY CRANKS"
- (i) Corporate taxation 8.2
  - (ii) Personal taxation and differentials 8.1, 8.2, 9.1
  - (iii) Entrepreneurship, small businesses 10.2, 10.3, 8.2
- (NB: The additional proposals from the Secretary of State for Industry are particularly relevant to these measures.)

- B. "CUT THE RED TAPE"
- (iv) De-regulate industry:
    - General and regional 8.2, 7.1, 1.2, 10
    - Small firms 10.1
  - (v) Free up housing and land 8.2, 11.1, 11.2, 11.4

- 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.)

- D. "LET THE MARKET WORK BUT SERVE THE PEOPLE"
- (vii) Competition policy 8.2
  - (viii) Reduce public sector monopolies 11.1, 11.2
  - (ix) Involve workers in their firm's success 3.4 and note 10, 3.7

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

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.)

B. "CUT THE RED TAPE"

- (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. "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.)

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 emphasise that a healthy economy should benefit everyone, not unions or bosses.)

A POSSIBLE AGENDA

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?