

ANY FURTHER ACTION PLEASE?



KJ/SMC

FROM: THE RT.HON. SIR KEITH JOSEPH, Bt. MP.

No - we want to get it done Sunday out

Rt.Hon. Mrs. Margaret Thatcher, MP.

27th January 1979

Dear Margaret.

Here is the draft of what I would like to say some time next week on the union problem.

I am copying this note and the draft to Geoffrey and to Jim.

Perhaps each of you will let me know whether you would like to talk over the theme with me, or any aspect of the draft.

My purpose is to emphasise that even the changes in the law, which we now in general propose, will be difficult to get right without careful analysis and discussion and that, over and above some changes in the law, there are equally big questions of the framework within which unions function and the anti-enterprise assumptions and attitudes of the Labour Movement, which have conditioned the thinking of many of the most active trades unionists.

Yours,

Keith

C.c. Rt.Hon. Sir Geoffrey Howe, QC, MP.
Rt.Hon. James Prior, MP.

K.J. SPEECH ~

DRAFT

"THE TRADE UNION PROBLEM NEEDS CLEAR THINKING BECAUSE
IT IS SO COMPLEX"

Margaret Thatcher has called for a public debate on the role of trade unions - not because we seek to blame the unions for all our economic troubles, but because we see them as the principal obstacle barring the road to national recovery.

If the debate is to be productive, it must be rational and honest. Setting the union problem in the context of our economic decline rather than at the centre of today's crisis. For the problem of union power will remain long after today's crisis is over.

I now seek to outline our thinking so that the point from which we start the debate is understood. I can best do this by asking five key questions which concern all who will vote in the general election this year.

QUESTION 1:

"SHALL WE EVER CURE INFLATION ?"

We are asked to be grateful for an inflation rate of about 8%. If the inflation rate stays at 8% today's £ will in 5 years be worth about 68p. No society can flourish if the value of money declines at such a rate.

We know now the moral and economic consequences of inflation. But it is always next year's inflation that people fear. It is inflationary expectations which wreck the management of the economy.

Powerlessness against inflation leaves people angry and frightened. Rational economic behavior is upset. Everyone seeks the largest possible share of next year's banknotes - the only production which we know will rise.

In such a climate of fear, anger and mistrust, everyone is forced to destructive action. Workers bankrupt their firms. Savers switch from productive investment. Management concentrates on survival. In this situation, the members of powerful trade unions appear, on the face of it, to be uniquely fortunate. Collective action seeks to give the individual negotiating strength which he does not possess alone.

Unfortunately, the inevitable response of trade unions to an inflation which they did not originally create, is making the cure of inflation more difficult.

Labour's monetarism is the worst of all worlds

In order to reduce the damage done by powerful trade unions, Messrs. Callaghan and Healey threaten to use crude one-track monetarism - which we, with our belief that monetarism is not enough, have specifically rejected.

Every one now sees monetary continence as a necessary but not sufficient pre-condition for economic growth and stability. That is common ground between the parties and we welcome it. Had both parties recognised this in the early sixties, we might all have been less ready to embark on the road of forced growth in public spending with its attendant heavy borrowing and currency debasement.

The inflation of the early sixties would have responded to good housekeeping. But, today, we live with fresh memories of 26% inflation, disintegrating incomes policy and fear of another inflationary explosion. And the powers of strong unions to make the rest of society pick up the bill for these misfortunes have greatly strengthened. So the problem of inflation has become more complex and its dynamics more powerful. Good housekeeping is no longer enough.

Moreover, public understanding has been misled by Mr. Callaghan and Mr. Healey who have denounced monetarism while practising it. They threaten us with monetary discipline as if it were an alternative to other treatment of inflation, whereas, of course, it is indispensable for any treatment. They have not systematically and repeatedly explained to the public their monetary targets or their implications for pay settlements and unemployment. They shrink from proclaiming a programme of gradually contracting money growth targets as would squeeze inflation out of the system. They shrink from the necessary reduction of high state spending.

Mr. Healey may say that if the powerful unions do not moderate their claims he will claw back the extra they win through extra taxation, as well as tighten monetary control. But, as many people have already pointed out, this would mean that the price of what are seen as excessive wage awards will be paid for mainly by those who do not benefit from them. Members of weaker unions, non-union labour, small businesses will foot the bill in higher taxes, fewer jobs, more bankruptcies.

Meanwhile they refuse to face the central problems - the present ability of trade unions to force the rest of society to pay for the inflation which unions themselves are now making it harder to eliminate.

So the answer to the voters' first question is "no, Labour are not going to cure inflation", and the method they propose to stop it rising will do great injustice to those least responsible directly or indirectly for causing it.

This brings us to the second question in the voters' mind:

QUESTION 2:

"WHY WON'T THE UNIONS BARGAIN RESPONSIBLY ?"

The unions can only react to the framework within which they operate. If union leaders know that money supply growth targets are in the 8% - 12% range and that money growth has in fact been at over 12% annually for many months, how can they accept a 5% limit ?

In addition to the monetary framework which forces unions to prepare quite rationally for further inflation, there is the legal framework.

This framework has been drastically changed by Labour's recent legislation which seems designed to ensure that a big union can almost always win any dispute. The predictable result has been the growing use of strikes and the strike threat. In a trade dispute most things seem permitted for the union side; breaking contracts, inducing others to break contracts, picketing of non-involved companies. Anyone can picket any company. A trade dispute can be between workers and workers; concern matters of discipline, membership, facilities; even relate to matters overseas. All this is quite unique to Britain. There is nothing like it in other countries.

As we would expect, this militants' charter, as Jim Prior has called it, has bred militants and driven moderates underground.

We now face an unstable situation - the collapse of socialist expectations, increasingly ruthless efforts by big unions to escape the consequences, inter-union warfare and the fruits of the militants' charter. Politicians who urge restraint on union leaders or who criticise their members for greed, ignore the forces at work. Recently both Tom Jackson of the postal workers and Sidney Weighell of the NUR have made courageous speeches about this impossible situation. But they have had to admit, in the next breath, that their own unions cannot behave any differently from the others. We cannot expect a union leader to choose unilateral disarmament on behalf of his members.

To ask one union to sacrifice its own interests 'for the national good' and without any guarantee that other unions will do likewise is as unrealistic as it is to urge housewives not to anticipate a bread strike or motorists not to fill up before a petrol strike. The national good can only be secured by changing the framework, the rules of the game, and insisting that everyone plays by them. This what Margaret Thatcher has called for.

Union leaders cannot make quixotic gestures of restraint with no guarantees that others will do the same. This is why, for a short term, incomes policy can look attractive, only to disappoint and leave matters worse. Union leaders are prisoners of a situation which they may deplore, but which they cannot individually change.

And it is now getting worse. For union leaders can no longer rely on their own members to behave sensibly. National economic failure and the militants' charter have given a supreme opportunity to the left-wing minority whose instincts are destructive, who are bitterly opposed to the free enterprise economy which most people want. The result is growing confusion. Shop stewards disregard union officials; workers start to sidetrust shop stewards. Members strike when ordered by their unions to work and - less often - work when ordered to strike.

The answer to the voters' second question is therefore, "No, the unions cannot bargain responsibly so long as government provides a framework which encourages irresponsibility and so long as unions have the power to respond to inflation in a way which makes it more difficult to end it."

So the voter asks his third question:

"IF UNIONS WON'T BARGAIN RESPONSIBLY, WHY CAN'T WE HAVE A STRICT INCOMES POLICY INSTEAD ?"

The damaging consequences of incomes policies are now well known. The prospect of incomes policy stimulates pre-emptive and high settlements. Governments setting up incomes policy tend to trade the undesirable for the undeliverable. The operation of incomes policies creates shortage, anomalies and resentments. The aftermath of incomes policies leads to an orgy of catching up. The economy is distorted by the price and profit controls which tend to accompany wage restraint. The policy is either simple, rigid, unfair and distorting; or 'flexible', unpoliceable, and thus largely ineffective. As we have found, there is nothing in between. The publicity given to each major award intensifies inter-union competition. As distortions accumulate the prospect of a return to free collective bargaining builds up expectations of 'reward' for a 'sacrifice' which was, in aggregate, never made.

Look at the evidence. We have experimented with different forms of incomes policy for about twenty years. In that time, inflation has reduced the value of the pound by over 75%. Unemployment has nearly trebled and yet industry reports skilled labour shortages. Our share of world trade has fallen sharply. Business profits as a share of GNP have fallen catastrophically. Real take-home pay has been almost stagnant. Over the same period, virtually every one of our competitors has left us far behind without the advantages of North Sea gas and oil and without using pay controls. Almost every year we have produced a smaller share of the world's goods and a larger share of its banknotes. Our problem now is the same as the problem 20 years ago, but writ larger; "We want other countries goods more than they want ours".

When we look at the evidence, should we not ask ourselves whether without all these attempts at government controls, we would have done even worse? Or is the reality much simpler - that if we had emulated the more successful economies in monetary policy, the role of the unions and the workings of the market - we would have done better ?

The difference between Britain and other advanced industrial countries is as much political as it is economic. And this brings us to the fourth question:

"WHY MUST BRITAIN BE THE ODD MAN OUT ?"

The signs of Britain's slide from the affluent Western world towards the threadbare economies of the communist bloc - are obvious enough: we have a demotivating tax system, increasing nationalisation, compressed differentials, stagnant and low productivity, rising unemployment, many failing public services and inexorably growing central government expenditure: an obsession with equality and with pay, price and dividend controls; a unique set of legal privileges and immunities for trade unions: and finally, top of the Western league for inflation, bottom of the league for growth.

But why has this happened ? Why does our prevailing political economy look increasingly eccentric in the Western world ?

There are perhaps three main differences between Britain and most other countries, which may account for our eccentricity. First is the virtually unique link between the Labour Party and many large Trade Unions with their commitment - airily dismissed as 'not serious', but stubbornly surviving all the same - to complete nationalisation. Second is an intellectual preference for top-down control rather than the untidy dynamics of free enterprise. This preference survives from early post-war when many intelligent and able people supported Labour's plans for a mixture of idealism - not to be sneered at - and the confused thought that because planning suited the single national purpose in war it could be applied to the millions of private purposes in peace.

But we have still not reached the heart of the matter. If we have reached the situation we are in because of our actions, what are the political and economic beliefs on which those actions are based ?

The Mythology of the Labour Movement.

The reason why the 'Labour Movement' has been such a disaster for the people it professes to serve is that most of its leaders have presented the movement as a war of liberation, a war between 'good' socialism and 'bad' capitalism. They have taught workers to resist efficiency, obstruct management, insist on over-manning, resent profit and ignore consumers. Like all wars it is destructive of what exists, vaguely optimistic about the rewards which will come when peace breaks out. It develops a supporting propaganda which dehumanises the enemy, over-simplifies the issues, relieves the troops of the burdens of individual conscience. 'I was only obeying orders' say the troops. 'I can't control the feelings of my members' say the leaders.

Labour's ideology asserts an economic war between 'them and us'. But who are 'they' in Labour's eyes? They are those whose economic functions are incompatible with, or peripheral to achieving the socialist state. Thus self-employed, entrepreneurs, managers, landlords, non-union workers, shareholders and - behind the routine sentimentality - pensioners, non-union members, school-children, hospital patients; all are 'non-persons'. They are either economic opponents who, by working successfully make the free market economy stronger and the socialist alternative less desirable; or they are non-combatants, irrelevant to the battle plans.

You may think that I exaggerate. But how else can we explain decent men closing hospitals, intimidating non-union members, striking when one of their fellows is sacked for stealing, damaging property, disrupting childrens' education? They can only do these things either because they themselves have been persuaded that they have a moral right to do them or because they dare not challenge the orders of their union officials or shop stewards.

This moral right is based on the war between 'them' and 'us'. What does Labour mean when it says 'us' ? The legend has it that all workers are 'us'; all are, by definition, staunch and loyal supporters of the Labour Movement, and all right-minded workers, it is assumed, want to be union members.

As you know, reality is different. Only a little over half the country's workers belong to trade unions. And only just over half of those support the Labour Party.

Labour mythology presents the worker as the servant of 'them' - the bosses. But again, reality is different. The assets of big companies are half owned by pension funds and insurance companies not by the managers. The true employer is, of course, the customer who pays all wages. The whole enterprise is, in financial terms, very small compared with the scale of the real economic purpose it serves, which is to allow people to employ each other's labour as efficiently as possible. It lives typically on a profit of three or four pence in every pound of its total production.

It is important to understand just how heavily the cards are stacked against any enterprise that tries to challenge the Militants' Charter. The enterprise cannot ask for subsidy to help survive the dispute, as strikers can. Its financial haemorrhage starts immediately, as its accumulated savings bleed away. Other companies may have to pay guaranteed lay-off pay to their workers - who are not involved in the strike at all. Secondary picketing may force them to halt operations altogether. If, after surrender to strike action, the struck-against company has to reduce its work-force, it must add to the cost of the strike and of increased wages, substantial redundancy payments to the workers it has been forced to lay off. The militants' charter looks increasingly like a charter for the systematic destruction of law-abiding, job-creating, free enterprise, in the name of Socialism.

However, once the myth has been established that the worker is being exploited by his boss, rather than employed by his customers other fallacies follow easily. It becomes clear that what is good for the boss must be bad for the worker and vice-versa.

We can see now why union leaders, in the grip of this mythology, pressed for and won additional powers - powers which are now doing their own members such damage - since 1974.

The next element in Labour's mythology is the belief that trade unions are responsible for all increases in members' living standards.

There is in fact no way in which striking itself, going slow, working to rule, over-manning or restrictive practices can do anything but lower the national living standards and obstruct the creation of new well-paid jobs. Militant action cannot produce goods, build hospitals, save lives, pay for pensions. Progress comes from doing sensible things, not refusing to do them. It comes from new inventions, good equipment, effective management, efficient work practices, higher individual output. There is nowhere else that prosperity can come from. Like government, trade unions can either assist in this process or else impede it. This is the limit of their positive powers in the economic sphere, as distinct from other important areas like working conditions and safety.

Because this has not been understood, the bitter reality - increasingly recognised - is that our unions have robbed their members of the only thing they can sell - their own potential productivity. The net result is that everyone must work longer hours, for less money, in shabbier factories, with older equipment than his counterpart overseas - and draw a much smaller pension when he retires. And the 'inhumanity of the market' against which the Labour Movement claims to fight for its members, gives way to the inhumanity of organised labour, in which decent union members do many things which are not done in the non-unionised sector, and of which they must be privately ashamed.

Perched on this structure of muddled thinking and propaganda sits the *raison d'etre* of the trade union - the free collective bargaining process as practised in Britain: a process which is expected: year after year and without any long-term side-effects, to produce higher living standards from static productivity.

The whole pay bargaining process is riddled with confusion and contradiction. Everyone demands above average wages. Everyone wants parity with those above them, differentials from those below. The link between productivity and real pay is scarcely understood.

The British working man and the British pensioner, the sick and the disabled are just beginning to pay the real price for Labour's long years of anti-business propaganda and its frightening ignorance of the economic and commercial processes which, alone, can improve their lot.

The answer to the voters' fourth question, therefore, is "Britain is the odd man out because a large number of its most influential citizens hold some odd political beliefs". And their beliefs will remain to keep us all poorer than we need be even when the present spate of striking is over. They - the beliefs, not the people - are the poison on our economic life. We are trapped by them.

So the fifth and final question is:

"HOW DO WE BREAK OUT OF THE TRAP ?"

The walls of our economic prison are closing in upon us, because all our social and economic problems reinforce each other. We don't have unlimited time, because each year the problem gets harder, the prison cell is smaller. In the past five years Labour has done many things to make the task harder, nothing to make it easier. The IMF and North Sea Oil have given us extra time but so far this has been wasted.

There are many big and difficult things we have to do if we are to escape from the trap. We have to cut government spending, end inflation, which will take 3 or 4 years, and, just as important, remove the fears that inflation will start again. We have to work out a systematic approach to pay determination in the non-market public sector, as Mr. Basnett has rightly urged. We have to reduce the present power of the trade unions to damage the economy and at the same time reduce the pressures which force them to do so.

Each of these - and there are many others - is an immense task. Each is an exercise in analysis, innovation, persuasion and co-operation. And when they are all achieved, they give us no more than a stable platform, instead of today's slow disintegration, from which to build recovery. They give us no more than a few stepping stones on the way to national recovery.

But the first of these stepping stones must be the reduction of trade union disruptive power.

The problem of union power - the imbalance in the bargaining position, the growing use of the strike threat as a weapon of first resort - bars our route.

Clearing that barrier requires a carefully thought out strategy, cool nerves and clear heads. It is understandable that people feel indignation at what is going on, anger at our sense of national impotence. Indeed there would be something wrong with the British people if we were no longer capable of feeling about such things. But, as Jim Prior has suggested, moral indignation can cloud our judgement. We must understand that this trap is not the work of evil men. Of course there is a minority that wants continued decline. But their task, the task of destruction, is easier than ours. All they have to do is prevent sensible things happening. They have been very successful in the past 10 years because we've been reluctant to believe in their existence.

The need for debate

No new code will be observed, no laws kept, if enough people reject them, for whatever reasons. No government can solve a country's problems for it. Politicians must offer choices, put the questions. The country cures itself with its answers.

Our objectives are ambiguous. We say that union power should be reduced, not because we are 'anti-union', but because that power is helping to destroy our economy. We should not however, jump to facile conclusions on how this is to be done, because the legal and administrative difficulties will often be formidable. Moreover we say that government should provide a framework that encourages responsibility and not irresponsibility. And, as important and even more difficult, we say that the anti-enterprise, anti-business, class-war assumptions and attitudes of the Labour Movement need to change if this country and all its people are to prosper.

The first step, therefore, is public debate to ensure that people understand the problem, recognise that it must be tackled and ensure that we find the best means to do it. This is what we would be doing now, in any case, if we had been elected in October. And debate means that, as well as speaking out, we must listen.

Margaret Thatcher and Jim Prior have already raised some of the measures which could be taken in order to replace the present militants' charter with a moderates' charter.

We want the union leaders to join in this debate. If they feel that they are being unfairly criticised, they should explain why. But the onus of proof must now rest on them. They must show the country how the union's activities can raise real living standards in the long term. We want their views on worker participation - but I mean economic participation, not political. And let them justify to the public the present closed shop provisions.

The Conservatives have to take the electoral risk

As Jim Prior said, our call for debate on the union role is the result of long analysis and discussion inside the party. We knew that such an approach carried political risks. But, as we can see today, shirking the problem does not lead to a quiet life.

We also reject the argument that the nettle could be grasped only after we had taken office. The moral authority to tackle Britain's problem at its root could only come if we made clear, before the election, what was at stake, and the calm, painstaking approach required, if we are to succeed over the next five years.

The response from the Labour Movement, and in particular from union leaders has so far been predictable. Any criticism of trade union democracy, or the economic effects of trade union action or its moral aspects has been greeted with cries of 'confrontation'. But people are beginning to recognise that this has been - in Jim Prior's words - a phoney war. The confrontation is between worker and worker, unions and the public. It is not between the Conservative Party and the TUC.

But we should not be surprised at this reaction, nor should we give up hope. After all, union officials are mostly members of the Labour Party, apart from the estimated one in ten who are communists. All are pledged to nationalisation and growing union power. By contrast only a bare majority of union members actually vote Labour and a third vote Conservative. Leaders of the big unions are ex-officio members of the Labour government. They have to campaign for Labour victory, whatever their members want.

Let me put it as simply as I can. If during this debate, for whatever motives, worthy or unworthy, union leaders or activists, especially of the broad left, succeed in persuading the majority of their union members that we are wrong to propose changes in the law and that they are right to resist them, then we will be unable to legislate, Make no mistakes about that. It is not sensible to pass laws until or unless the majority of people are ready to support them. Laws are the codification of the sort of behavior the majority want in order to restrain the minority who do not. This debate is, therefore, in deadly earnest.

Our own debating style, is crucially important.

We must not fall into Labour's trap and follow their example.

We can make no progress if we refuse to understand the viewpoints of those who disagree with us. We must not over-simplify the problems. There are two sides to every industrial dispute. There are questions about business power which we must not shirk.

We should never forget that union members are prisoners of a set of wrong assumptions and of a system which has gone wrong. It is the system we criticise, not the people involved in it. Similarly, we should remember that those working in the public sector are responsible people trying to do a decent job. It is the policies which have led to the growth of that sector, its inefficiency, and its capacity to waste our money that we should criticise, not the people in it. As Geoffrey Howe has said, we have no class war to wage. Always we should reason, argue, think, listen. If we are to rebuild Britain's economy, we need a peace conference, not a charge of the Light Brigade.

Finally, we should remember that the role of trade unions is an electoral issue here because every one knows that they are pulling us in the wrong direction. It is so in Britain because they are pulling in the wrong direction. I shall not try therefore, to show a spurious 'balance' today, by making the ritual criticisms of British management, because the situation is not symmetrical. British management has tried to do the right things and to a large extent - too large for the country's good - it has failed. But the trade unions have - albeit unwittingly - tried too often to do the wrong things. And they have succeeded. That is the difference.

It will help if the potency of the anti-enterprise, propaganda machine can be blunted - and more penetrating questions on radio and television could do much to expose its wrong assumptions and fallacies.

In the long term, the electoral choice is about whether our political economy should flourish or decline. The union debate is about whether trade union power should, through fear and economic disintegration, force us to accept the union leadership's choice instead of our own. Only a national 'show of hands' - but through the ballot box - can decide which it is to be. The people are only powerless to change this country's future if they think they're powerless.