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ACB to deal

Confidential

12th February, 1979.

John Major

At the economists' dinner at the Carlton a fortnight ago, you mentioned to me that you were having election speech "modules" on various subjects prepared in advance, and that you might be calling on me to do a draft of the economic "module". A few days ago my secretary received a telephone call from Dermot Gleeson at the Research Department, saying that you would like me to do a 700 word draft economic "module" by today.

I have accordingly typed out the enclosed. It is much longer than 700 words - I would judge between 1100 and 1200 - but it can easily be cut and/or compressed. However, the main problem is that I am not at all clear about the sort of thing you had in mind: what I have done is deliberately couched in very simple terms, designed to be understood by the man in the street, and avoiding any mention of figures. It may well be that you had something more "up market" in mind; but if, after reading this, you feel that it is on the right lines, I will gladly cut it back to the required 700 words. (although you may well feel that you can do the surgery better yourself).

John Major
Nigel

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
cc; Dermot Gleeson

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The Conservative Party's economic policy has two overriding aims. The first is to release the frustrated energies of the British people, so that we produce more as a nation; and the second is to bring down the rate of inflation. These two objectives go hand in hand, and each is as important as the other.

It is only by producing more that we can improve our standard of living. Why don't we? One reason is undoubtedly the proliferation of strikes and other forms of industrial disruption that have given us such ~~about~~ an appalling reputation abroad and cause so much self-inflicted damage at home. For the nation as a whole, every strike is a strike for lower, not higher, pay.

But another powerful reason why we don't produce more is that our present system of taxation, with the highest rates of income tax in the civilized world, often make it scarcely worth while to do so. That is why the ~~maximal~~ ^{central} pledge which we make to the British people, irrespective of the seriousness of the mess we inherit, is ~~that~~ ^{a firm} pledge to bring about a really substantial reduction in personal taxation, at all levels.

Only in this way can we ~~real~~ create once again the incentive to take risks, to acquire skills, to expand, to work overtime - and above all, quite simply, the incentive to work at all.

For far too many people under Labour, it ~~simply~~ just doesn't pay to work. We will see that it does pay to work; and this means big cuts in income tax.

~~Deflationary~~ or ~~rising~~ prices, ~~maximalism~~ is what happens when you have too much money chasing too few goods. ~~The~~ Our tax policy will stimulate the British people to produce more goods, but only the



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Government can control the money side of the equation. So we will commit ourselves to a steady and gradual reduction in the rate of growth of the supply of money, until it is consistent with stable prices. Only in this way can inflation be wrung out of the system.

But a policy of this kind would mean an intolerably high level of interest rates - intolerable for the home-buyer and businessman alike - unless it is ~~xxx~~ accompanied by a substantial reduction in the present grossly excessive level of Government borrowing. Thus an equally important part of our long-term anti-inflation policy - and we have suffered enough from short-term expedients which leave ^{our} ~~the~~ underlying economic health worse than it ~~xxx~~ began - will be to bring about a really substantial reduction in the amount of Government borrowing.

How are we going to be able to cut both income tax and government borrowing at the same time, and by a substantial amount? Certainly it ~~cannot~~ can't be done painlessly (and anyone who offers you a painless cure for our present grave economic ills is a charlatan of the worst sort), although the revenue from North Sea oil ~~xxxxxx~~ will help. But it can be done, basically in two ways: first by shifting more of the burden of taxation onto spending - we believe that, if ~~at~~ taxation is a necessary evil, pay-as-you-spend is a lesser evil ~~than~~ ~~pay-as-you-earn~~ - and, second, by trimming back the vast total of ~~Government~~ spending. This has to be done.

Of course, we all want to see a better ~~taxat~~ standard of public services; and in many cases, although not all, this means spending more money. But at the end of the day the level of public services ~~depends directly~~ and inescapably on the wealth of the economy as a whole: money ~~has~~ to be earned before it is spent. This is something the



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socialist never seems to understand. Our policies, by leading to an increase in our national wealth, will in the long run be the only way we can ever afford better public services. But for the moment, the money has run out.

What about pay, about which so much - too much - of the economic debate has turned over the past ten years? Because of the overriding need to cut income tax and ~~not~~ reduce government borrowing, and thus to curb Government spending, there will obviously have to be firm cash limits on how much the Government is prepared to pay out in wages and salaries to ~~the Government~~ its own employees. How these limits on total payroll costs are divided between rates of pay and the numbers of public employees employed will be a matter for negotiation, which will vary from case to case on the merits of each case. *But there can be no yielding over the total amount.* ~~not~~ There is no need for the rigidities of a formal incomes policy in the private sector, where competition - particularly against foreign ~~competitors~~ competitors, whether in export markets or here at home - sets a limit to what each firm can afford to pay. If it pays too much, the inevitable result is lost orders and higher unemployment. We have seen all too clearly, in recent years, how workers in the private sector can price themselves out of a job.

We don't want to see this happening. So we propose to set up, in place of the next Stage of Labour's pay policy, a forum where ^{the} Government can ~~not~~ sit down with the leaders of the unions, the employers, the Bank of England and others, to explain its economic policy and discuss the consequences of that policy; and explain it, too, to the people as a whole. ^{In a free society,} Nothing can stop trade union leaders ~~pressing~~ making pay claims that must inevitably, if granted lead to increased unemployment; but at least the consequences of their action can be made clear to them, and



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to their members, before they finally decide to take it.

But although this forum will help to bring about the greater degree of economic consensus and understanding the country so badly needs, we all know, in the light of recent events, that it will not be enough unless measures are also taken, as we have promised, that will curb abuses of trade union power and redress the imbalance of power in British industry to-day which ~~impoverishes~~ demoralises the businessman and impoverishes the worker.

Here then is a coherent long-term approach to the economic ills which have beset us so long and which have now reached an acute stage; and one that differs sharply from the discredited short-term expedients of the present ~~Labour~~ administration. To put things right will be a long haul; but merely to embark on this new course ^{give a} will/boost/confidence ^{to} both at home and abroad that will put us well on the road to eventual success.

The British people have a choice. I have spelled out that choice. It may well be our last chance to rescue the British economy from the depressing spiral of decline, and ~~give a boost to~~ allow the British people to show what we are capable of.