

CHANGING GEAR:
What the Government should do next

Proposals from a group of Conservative MPs

M

Prime Minister

Attached is a copy of "Changing Gear"
of which you have already seen the
page proofs.

I have been through it carefully and I have
marked particular points of interest.

Return to Political
Office
and

D.H.

Derek Howe

8th October 1981

Today we stand in a perilous position, but not without hope. We have at least the most important thing of all at the Head of our Government, a Prime Minister of courage, who I hope will not be led away from the old tradition of consensus. People can be governed in only two ways, either by tyranny, autocracy (whether it be of a King or of a Communist regime), or they can be governed by persuasion, by appeal to their good sense, their nature, their tradition, their inherent patriotism, and it is our duty and I take it the purpose of this Society in honouring the name of one of the greatest men who served the Crown and the people to maintain the doctrines that he taught us, to make our Party wide, comprehensive, progressive, at the same time, above all, based upon faith in our future and pride in our past.

(Mr. Macmillan was given a Standing Ovation)

The Rt. Hon. Harold Macmillan, O.M., F.R.S., addressing the Primrose League on the anniversary of Disraeli's death, 1981.

Preface

This pamphlet emerged from regular discussions held by a group of Conservative MP's of the 1979 intake, joined in 1981 by one MEP. Ideas were developed both in conversation and on paper. The rapporteur and editor was William Waldegrave. The group consisted in addition of Michael Ancram, Robert Atkins, Jocelyn Cadbury, Robert Cranborne, Peter Fraser, Tristan Garel-Jones, Ian Lang, Nick Lyell, Richard Needham, Charles O'Hagan, Chris Patten, Alex Pollock, and John Watson.

Particular thanks are due to Catali Garel-Jones, who regularly allowed the participants to overrun her house; also to Caroline Waldegrave, Lavender Patten, and Hannah Cranborne for taking the strain on other occasions. Our thanks are also due to Jackie Heard and Rachel Sykes for typing a dreadful manuscript very quickly. Finally, we are grateful to Alexander Macmillan and to Macmillan and Co. for helping us with publication.

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1 Conservative Policy in the next Period

Conservatives should never become too entangled with a particular economic theory. Primarily, this is because Conservatives believe that there are political arts at least as important as economics. But it is also a matter of prudence. Economics is a science still in its infancy. Like cosmology before the telescope or physics before particle theory, contrary judgements about the interpretation of even the most central economic phenomena are still possible. Economists with Nobel Prizes, for example, argue both that money supply determines inflation and that inflation determines money supply.

This means that the choice between economic theories is determined very much more by the moral and social values and beliefs of the theorist than is the case with other sciences. For example, there is no way of setting up an experiment designed to prove or disprove the proposition that expectations of future inflation determine pay claims, or that lower direct taxes stimulate industrial activity; persuasive arguments may be made for and against such propositions on the basis of such evidence as can be found, but proof as rigorous as that expected in, say, physiology, is not available. There can be no experimentation, because conditions can never be identical (or even very similar) between a society at one date and the same society at a subsequent date – or different societies at the same date.

In fact, economics is only a matter of applying intuitive judgement to the question, what made people behave at a certain time in a certain way, on the basis of such facts as (it can be argued) are relevant, and of making guesses at how they will behave in the future. It is politics or social psychology with numbers. No economic theory allows the Conservative politician to abdicate his perennial, uncompletable task of struggling to guess how best to keep society on an even keel, or allows him to take up instead the technician's task of guiding a machine or maintaining a closed system. From Plato to the present day, people have sought to turn the business of government into the discovery and application of scientific rules: they have always

failed. The onslaught of economists is like that launched a millenium earlier by theologians. It has made very great headway since the 18th century in Europe and those parts of the world affected by Marxism. For most of this period the Conservative Party has owed a large part of its success to its refusal to abandon its scepticism about such scientism in politics. This has regularly earned us the opprobrium of intellectuals and from John Stuart Mill the accusation of being the stupid party. It has meant however that almost alone of nations, Britain has maintained a powerful and effective political tradition invulnerable to changes in the fashions of explanation which have been applied to society. When we have flirted with the subordination of Conservative instincts to economic theory – for example, during the turn-of-the-century debate over protection – we have always damaged ourselves and lost the chance to influence events.

No-one can deny that in the last few years we have come close to abandoning our traditional approach to politics in favour of the belief that our job was to impose a certain type of economic analysis on the nation – to become a pressure group for a particular economic theory. Nothing should be further from the minds of Conservative leaders than such a task. In fact, one job of the Conservative Party is to protect our citizens from experiments by theorists whose beliefs can never be scientifically proved. Our task is defined by our view of the world: equipped with little theoretical baggage except ordinary morality and a clear understanding of what politics is *not*, we have to keep society on an even keel while maximising the availability of various desirable things which are frequently mutually competitive, such as justice, freedom, order and prosperity.

Economic fashions have their own apparent dynamism which may be no more than a reflection of the changing problems which face a society. Unfortunately, there is a natural time lag while the citadels of university departments and treasuries fall to the new fashions: thus fear of hyperinflation in the 1920's perhaps caused the triumph of deflation in the 1930's (when structural

unemployment was the problem); fear of 1930's unemployment made risks with inflation seem reasonable in the 1960's. Once again, in the 1980's counter-inflation policy dominates. Obviously, since Britain in the last six years has been through a period of disastrous inflation, this shift in emphasis was inevitable and right: Labour and Conservatives alike from the mid-1970's onwards had to adjust their policy to bring inflation back under control. The task for the Conservative Party now is to be quick enough on its feet to move the emphasis of policy, as inflation moderates, to a recognition of the fact that the nation is likely next to see unemployment as the primary problem. We must not be left fighting inflation as the sole object of policy, when there is an overwhelming desire for a sensible programme of industrial and social reconstruction to relieve unemployment.

This is not so much a criticism of policy in the period since 1979. Much more, it is a warning that along with a counter-inflation policy defensible in common sense terms, the Conservative Party seems to have swallowed a political ideology (dressed up in economic language) which is not only profoundly antipathetic to our traditional approach to politics, but which brings with it a danger of inflexibility now that the problems are changing. Most of our counter-inflation policy so far has, in reality, been within the broad consensus which runs from (say) Chancellor Schmidt and Dennis Healey (in Government) on the one hand to M. Barre and the Fed. on the other. We have sought slowly to diminish Government borrowing as a proportion of national product; to use borrowing targets, monetary targets, and cash limits on government spending both as tactical weapons in the everlasting battle to control self-expanding public programmes and as *fauts de mieux* weapons with which to try to influence inflationary expectations. We abstained from over-informal incomes policy, in view of the particular recent political history of Britain, and struggled with rough targets derived from public sector pay. We squeezed company profits hard by allowing the pound to remain stronger for a time than industry wanted, and imposed sharp positive interest rates for several months.

Most of this programme could have been (and has been) defended by social democrats and centrists elsewhere in the free world faced with rapid inflation. We seem almost to have spurned the hope of consensus in the reasons we have given for things. Our own propagandists have alleged that what is essentially middle of the

road counter-inflation policy was something quite else: namely not a counter-inflation policy at all, but a revolution in economic and political management which would (in language familiar from 1970) release such energies from the people, such resources from the overgrown State, and provide such incentives for individuals and businesses that the recession which inevitably accompanies successful counter-inflation policy would not happen; and, moreover, that no further policy was needed either to deal with the inevitable additional recession or with the far more profound effects of pre-existing world recession. In this ideological mood, incomes policy was ruled out not on grounds of present political impracticability, but on grounds of laissez-faire economics, public spending was to be cut not to diminish the burden of debt and to relieve demands on resources which were inflationary at a time of rapidly declining national product but out of liberal enthusiasm for the social morality of Samuel Smiles. Money supply targets became not useful weapons in the perennial battle to check the dynamics for expansion particularly in their current spending of government bureaucracies, and broad indicators of the direction (over time) of the general trend of inflation, but the definitive determinants of short term policy adjustment as if we believed a peculiarly deterministic sort of monetarism from which the imponderables of timing and of changes in velocity had been excluded. Above all, we swallowed down a great dose of liberal political nonsense which argued through the pamphlets of the IEA and the CPS, as liberals have argued since the eighteenth century, that there was no role for Government in the commercial and industrial life of the country, and only the most circumscribed role in social policy.

Just as most of our economic policies are defensible for what they are (rather than what they are not) so our industrial and social policies would look stronger if they were presented as the consensus policies they are and not as failed attempts to replace Peel and Macmillan by Cobden and Goldwater in the Conservative pantheon. We have had to begin a belated process (much better done long ago) of radical slimming down of some industries – like bulk steel making and volume cars – where the world competition has been too strong for our existing scale of production. We are trying nonetheless to rescue smaller, rather more specialist enterprises from the wrecks. We have put a lot of money into high technology companies like

Inmos and ICL and pressed on with sensible reforms in such areas as telecommunications where growth should come. We have undertaken the essential task of social support for those hit both by the recession we have contributed to as a result of counter-inflation policy, and the far deeper world recession. We have wrestled with the problems of maintaining welfare payments, the Health Service and Education at a time of declining national product, and have had to impose some unpalatable cuts in exchange for the maintenance of the basic programmes. None of this has been unreasonable: all of it has been the sort of mix of policies applied elsewhere in Europe in the face of similar problems.

Why then have we achieved so unenviable a reputation as industrial hit-men and social reactionaries? Not, surely, because of the efficiency as propagandists of our political opponents. Seldom have we faced a more chaotic and incompetent Opposition. The answer, once again, lies in our own skill as propagandists for a sort of ideology which we have not carried out in practice and which is profoundly antipathetic both to the nation, and to our own traditions. We talk in terms of almost primitive industrial laissez faire, and thereby collect the credit for every bankruptcy which occurs. We talk, too often, as if we consider the unemployment figures to be fraudulent, or the recipients of social security not to be our fellow citizens for whom we have a duty to care – and thereby collect the odium of responsibility for the recession and the hatred of those whom we have in fact struggled to protect at a time of falling national output.

All this political damage seems to us traceable to the mouthful of old-fashioned liberalism we swallowed down in the mistaken belief that it was the only ideological basis for a counter-inflation policy which needed no such support. This pamphlet is a plea to the Conservative Party to keep calm: not to regard its first two years as a failure, betrayal or other disaster (as we are now being told by some of the ideologues): but above all not to look to those ideologues for the necessary action which we should be beginning to undertake now, as inflation moderates and unemployment, both objectively and in the perception of the nation, begins to dominate.

There have been achievements in these first two years. Paradoxically, the greatest may have been to maintain the commitment to counter-inflation policy started by Mr. Healey and Mr. Joel Barnett in spite of the powerful forces which push an incoming Government in the

contrary direction to its predecessor. We have now maintained that policy in Britain from 1977 (with hiccups like the pre-election boom and our slowness over public sector pay) and it is beginning to work in terms of the long term trend of inflation. Maintaining any unpleasant policy in a democracy for long enough for it to have a chance to work is a considerable achievement. We have restored the Conservative Party as the party of sound finance – and, boring though it may be to the fanciful and the adventurous among economists, it is a position which has always in history been an important one for Conservatives. The electorate expects us to be cautious financially; electorally, that expectation will do us no harm.

We have also been brave enough not to try the impossible task (whatever our rhetoric may have said) of slowing inflation while preserving everyone in jobs many of which are dependent on inflation. We have achieved a reputation for realism which, if it has too often seemed to merge into a reputation for cruelty as a result of the way we have talked, can, equally, be reconstituted if we begin to talk more sensibly.

We have acted in Foreign Affairs and in Europe with conspicuous freedom from ideology, and have achieved conspicuous success.

The authors of this pamphlet argue that we are perfectly capable of winning the next election, if we think in common sense ways about what needs to be done next.

In macro-economic management, we have to begin to shift our eyes a little from the inflation figures. The slowing of inflation *by itself* will not restore the economy, though its diminution is a necessary condition for improvement. The next task is to show how without a rapid reversal of inflationary expectations and an abandonment of the gains on public sector pay, we will ensure that there will be sufficient demand (and sufficiently stable demand) for businesses to begin to plan again for a slowly but steadily improving future. Some risk is implicit in the present situation: the Government has to decide what is the most sensible risk to take. To do nothing, except to maintain the counter-inflation policy, is probably the riskiest course of all, in that it brings with it the likelihood of the abandonment in due course of all rational economic policy and either the application of panic measures by Conservatives before an election, or the application after the election of the theories of Mr. Wynne Godley. Ultimately, however, it is not macro-economic management which builds a strong economy. That comes from millions of people, in hundreds

of thousands of firms and other organisations, working more effectively. There is a huge role for Government in helping to achieve this – in training and education, in the reform of institutions where they are out of date or incompetent, in the better management of its own affairs (including, as they inevitably do, huge industrial concerns), in buying policy and science policy, and small business policy and trade policy. On all these areas we have something to say.

In social policy the problem of scarcity of resources seem to have deadened for the time being any attempt to develop coherent themes. Again, the authors of this book see no reason for Conservatives to be on the defensive. Once again, the backwash of liberalism (which tends to amount in social policy terms to cuts in

welfare matched by cuts in higher rate taxation and capital taxation) has damaged the Conservative commitment to a fairly hard headed but nonetheless progressive social policy. This commitment is derived from the belief, fundamental to Conservatism, that social cohesion and elementary fairness alike demand that the weak are not left to go to the wall.

Phase Two of this Government should now begin. There should be a shift of gear and an emphasis on construction rather than destruction, on the possibility of achievement rather than on hard lessons to be learnt, on progress rather than crisis. All this can develop easily enough out of what the Government has *done*. All we have to lose are the chains of what we have, too often, *said*.

2 Economic Policy

The Treasury's view of how Britain is to escape from recession has been articulated from time to time by the Financial Secretary, Nigel Lawson. It is basically this. Granted, an increase in real spending power is necessary to draw unutilised productive capacity back into use. However, to initiate any general reflation as an act of policy would be seen as a reversal of the Government's commitment to stopping inflation. This would result in a burst of high pay claims and in rising interest rates as inflationary expectations changed. Moreover, so great would the reflationary stimulus need to be, and so unstable remains the underlying trend of inflation (still well over 10% in mid-1981) that the most likely result would be a huge surge in inflation which would bring us near to economic collapse in spite of our oil. Rather, stability and predictability of policy are what is required. As inflation falls, if we maintain a steady but moderate expansion of money measured on the broadest criteria (for example, money GDP) there will come a time when the rate of increase in prices will fall below the rate of increase in 'broad' money at which point interest rates will fall and resources be available for increased consumption, profits and investment. Therefore, if we stick to the policy steadily, it will be shown to contain within it the self-corrective mechanism necessary to get the economy on the move again.

The Treasury's theory is an attractive one, emphasizing as it does the need to coax back to confidence investors and managers battered for a decade by dramatic reversals of policy direction. In that sense its reliance on automaticity is a strength.

In terms, however, of the vulnerability of the British economy to unexpected shocks, both external and internal, and in terms of the imperatives of the political time table, we do not believe it to be enough. The theory is curiously reminiscent of the argument that used to be put forward in 1972-3 whereby expanded demand, accompanied by the suppression of inflation by means of a statutory prices and incomes policy, was to find its way into the new investment needed to modernise Britain. Oil and commodity

price rises and the miners destroyed that happy outcome, and the surrender of manoeuvrability on the part of the Government inherent in the statutory policy made readjustment difficult. Something rather similar could happen now. What if oil price rises next year push the virtuous cross-over point further ahead yet again? What if, instead of demand steadily drawing people and factories back into work, the length and bitterness of the recession has left investors wary of initiating trading and manufacturing investment and we see only a stock-market and property boom? What if (as some simple monetarists believe) the cross-over between inflation and monetary growth *can* only be brief before prices climb after the money supply? The whole theory looks to us much too rickety to use as the sole determinant of policy in the run up to an election which, if it went wrong, could well consign the Conservative Party to crushing defeat and the country to a Government of the hard left.

Nonetheless, the Treasury's arguments against general reflation have strength. As Mr. Peter Jay has shown in articles running back over several years (and as Mr. Wynne Godley confirms from a different viewpoint) the demand stimulus needed to shift the British economy out of recession has had to be greater in each of the cycles since the war; the long term effect on inflation has been worse on each occasion and the decline of the underlying trend of GNP growth has been steady throughout the period. The Treasury's economic model, while it predicts dire consequences from the maintenance of policy unchanged, also shows that very large reflationary stimuli are needed to have much effect on a recession of this depth. We do not believe that in this sense, in Mr. Callaghan's phrase, we can buy our way out of the slump.

Mr. Wynne Godley (and, increasingly, it would seem, Labour spokesmen) argue for a more sophisticated form of reflation. Believing that British loss of industrial competitiveness is now so pronounced that our trading position can only be restored by a massive devaluation of the pound, which is not effectively possible in a

world of floating exchange rates, he calls for severe across-the-board import tariffs (which would achieve the effect of devaluation). Expansion of demand at home behind the tariff wall would allow production at home to increase, and avoid merely sucking in imports; as productivity increased with a greater volume of production our competitiveness would be restored and in due course we could begin to diminish the tariffs.

This theory is intellectually much more satisfying than the general reflationist case. It does however seem to be riddled with unknowns and gaps. Mr. Godley says, reasonably enough, that it would be illogical for other countries to retaliate against us with equal tariffs (which would destroy the whole operation) because we are already effectively cutting our imports from them by allowing ourselves to fall into a slump which means there is no demand for imports. Whether this argument would cut much ice with the US Congress or with European countries who had just had to put up with us withdrawing from the EEC (as we would have to have done) seems to us a very long shot indeed. What is more, the condition which British industry would find itself in – of an artificially expanded home market combined with very formidable protective tariffs – seems almost designed to multiply inefficiency, outdated work practices, and second-rate products. Many people believe that much of British industry's slackness derives from the period after the Second World War during which (with several major industrial rivals almost out of action as a result of war damage) our firms felt they were in a permanent seller's market, and failed to modernise. Mr. Godley would seem intent on recreating the same conditions on a smaller scale. In addition, it is not immediately obvious why the imposition of tariff barriers, if they excluded foreign goods as intended, would not raise the value of the pound and so worsen our competitive position further.

The relative ease with which it is possible to knock holes in the various alternative economic theories, including the Government's (and we have done it much less vigorously or competently than rival professional economists would have done) reminds us again that a political strategy based on economic theory is a house built on sand. Some will respond by saying, if one theory is as bad as the next, why worry? The least damaging thing to do is nothing: continue as you are in the hope that the people of Britain decide to change the economic relationships by committing themselves to work and to commercial

activity more vigorously than they have done in the recent past; if they do this, and begin to behave like Germans or Japanese, then your economic policy can do what it likes: national product will begin to increase again anyway.

The 'do nothing' approach, however, is not really available to us. For demographic reasons, even without further effects of the slump, unemployment would be likely to climb well past three million on this basis. Strong though Britain's institutions and loyalties are, it no longer seems quite so fanciful as it did to believe that they would be under threat from what would appear an endless slump. It is not a matter simply of riots. Would it have been conceivable ten years ago that the GLC should be led by a Marxist who sympathises with the aims of the Provisional IRA? That the hard left should have effectively taken over the Labour Party? If the Government were to appear to wash its hands of any capacity for action in the face of the harshest crisis most people alive in Britain today have seen, our citizens would be bound to turn increasingly to those who appear to have retained a confidence in action, extreme though their views may be. The most successful conservative regimes of modern times – in France, in Germany, in Japan – have often outflanked their opponents by decisive action. The time has now come for us to emulate them.

What we have to try to do is to act not only on economic indicators but on the morale and energies of the people who move those indicators. Britain has consumed too much and invested too little, broadly, since the war. Even in this recession, consumer spending has held up remarkably well as, over the last two years, people in work have successfully tried to protect themselves from a fall in living standards by large pay claims at the expense of profits, investment and future employment.

The basis of the next stage of policy should be that Government itself should undertake capital investment, and should enable private companies to do the same, in exchange for pay restraint and a fall in living standards. In the public sector a wide range of public investment should be undertaken on the clear understanding that the programme would be put at threat at once by pay claims which sought to keep up with, let alone ahead of, inflation next year. Amongst the investment undertaken should be house building, renovation and insulation (aimed at inner city areas in part at least), road building, other infrastructure work, telecommunications, and school equipment. Perhaps we should commit

ourselves, on a longer timescale, to the Severn Barrage. Departments will undoubtedly have other candidates to offer. It might well be practical politics, even, to call for a temporary pay freeze in exchange for a specific major package of investment projects. Even if the response from unions is dilatory, the Government would have shown itself capable of taking the initiative – as it has done in a small way over railway electrification. In the private sector, the Government's strategy should be based on trying to restore profit margins by diminishing one burden it can directly control (the employer's national insurance contribution), by cutting interest rates further, and by finding formulae whereby some softening of energy prices is possible without arousing the ire of the EEC Commission. Again, the quid pro quo is restraint in pay: the sanction, income taxes.

It is impossible to cost such a package because the extent to which it would be possible to undertake it would depend on the success of pay restraint. The sort of figures it would be sensible to think about would be £4 or £5 billion over the next two years on capital projects and perhaps £2 billion off industry's costs by cuts in national insurance contributions. The savings derived from success on the pay front, less unemployment, and more tax revenue, might halve or better the total cost. Any serious threat to the integrity of Government financing (of which the symptom would be inability to sell debt at tolerable interest rates) should, in the view of most of us, be relieved by a willingness to abandon, for the time being, and with obvious reluctance, our commitment to lower income

taxes. It is simply not possible to shift an economy well set into bad habits of over-consumption and underinvestment onto the opposite path if the fairest method of limiting consumption is supposed to be taboo throughout the process. It is surely not possible to tolerate for much longer a situation where a diminishing work-force looks after itself in terms of pay at the cost of a growing second nation of the unemployed.

This is, of course, a reflationary policy, though we believe that by linking it to capital investment, of a kind where spending will be taken up by home suppliers, and to pay restraint, the effect on Government financing can be minimised. Some upswing in borrowing can probably be accommodated without affecting interest rates much – though our keenness to see private industry benefit from lower interest rates makes us willing to stomach high personal taxes if necessary rather than see a reversal of the trend of interest rates.

But it is, above all, a policy aimed at putting the Government back in charge; of showing that we are not giving up the struggle of political leadership or deserting the unemployed. If such a policy – combined with other, less expensive initiatives we suggest elsewhere on training and social policy – were to be vigorously pursued, the atmosphere as well as the real economy might well be very different by the time of the election. And if we lost, we would at least not have landed ourselves with the permanent stigma of apparent callousness and inaction – a stigma from which it might take the Party many years to free itself.

3 Industry Policy

(i)

A central objective of the new Conservative Government was to create an economic climate favourable to the regeneration of British industry. This climate was to be fostered by the conquest of inflation, a redress in the balance of power between capital and labour and a reduction in the burden of taxation on wealth creators. The emphasis was on a return to 'economic freedom' rather than the pursuit of a positive industrial strategy. This was entirely understandable not only because Conservatives have a healthy scepticism about Government interference in industry but also because the country had just witnessed a considerable extension of state control into various aspects of national life, and the failure of a highly bureaucratised 'industrial strategy'. As a result, the term 'industrial strategy' raises fears of corporatism, state direction of industry and "Bennery". Nevertheless, Conservative Governments must operate in an economy in which a high proportion of the Gross National Product is accounted for by the public services and the nationalised industries. So while the present government rightly presses ahead with a marginal programme of privatisation, Ministers still have to deal both with enormous and monopolistic nationalised industries, and with the effect which decisions made in the rest of the public sector have on British industry.

At the same time, despite signs that British management is at last beginning to give stronger leadership, many private sector companies, already dangerously weak, have been further battered by the recession. The present Government has had to recognise this. It has also had to contend with an international economic environment in which the Governments of all the industrialised countries, even the most capitalistic, give direct assistance to private companies.

Given the vulnerability of whole areas of British industry, greatly exacerbated by the recession, it is difficult to see how any Government can avoid intervening in both public and private sectors on a considerable scale. For example, had there been over the last seven years no Government help for British Leyland – or regional grants for Ford – there would be

virtually no motor industry left in the U.K. It is essential, therefore, to recognise that some Government intervention will be necessary for the foreseeable future and develop an industrial policy which takes account of this reality.

Across the political spectrum there are three main responses to Britain's current industrial weakness.

First, there is the siege economy proposed by Mr. Benn and some Cambridge economists. We have argued against this in the previous chapter. The likeliest outcome of such a policy would be the miseries of Polish meat queues and all the other horrors of an East European closed economy.

The second alternative is embraced by those on the political right who envisage a complete return to the idea of a 'laissez-faire' economy and the supremacy of the 'unseen hand'. This school argues that if even more of the British manufacturing base withers away (as it will do if we take no steps to prevent it doing so) there is no need for anxiety because steel plants and car factories will be replaced by new industries and service industries. Microchips, hairdressers and Indian restaurants will save us. Such a prospect is certainly more attractive than Bennery, especially if you place a high value on Chicken Vindaloo. However, it is simply inconceivable that a weak trading and manufacturing base could support service industries on the scale required. The ensuing high unemployment would not be tolerable.

The third alternative is the middle course and the one advocated by us in this pamphlet. According to this strategy we should ensure that all other aspects of Government policy work in harmony with – rather than militate against – the success of British industry. While recognising that the Government should on no account attempt to prop up every ailing company, Conservatives should support carefully selective assistance to industry, especially to those sectors with positive growth and profitability prospects – what the Japanese call 'sunrise industries'. Some of the horses we back will fail: but it takes no great visionary power to see that the tentative

moves already made to support microbiology, information technology and microprocessor applications must be right. Having identified promising areas, all Government Departments – led by the Treasury and the Departments of Trade and Industry but not excluding any agency of Government which spends money – should join in a concerted and relentless effort to support and develop them.

Our strategy develops many features which already exist, in a somewhat shamefaced way, in present Government policy. In the public sector we should press on with denationalisation and the breaking of state monopolies wherever possible. In the private sector we should continue to strive for an economic climate favourable to investment and to the creation of new businesses by controlling inflation and if possible reducing the burden of tax on companies.

But there is an urgent need for a more coherent industrial strategy which would both enjoy the support of industrialists and be capable of arousing the imagination of the general public.

We have already agreed that the Government, while continuing its drive to reduce public current spending, should allow some increase in expenditure on capital projects. Not only is a higher level of investment in infrastructure vitally needed if we are to remain a modern industrial state, but if the programme is used as a weapon with which to advance rationalisation and investment in the firms concerned, it can also be a powerful element of industrial policy.

In addition we need an energy policy which actively promotes energy conservation and which takes adequate account of the difficulties at present facing intensive energy users. Finally we must increase the level and effectiveness of the nation's research and development effort and look at ways of improving Britain's ability to harness for commercial exploitation the scientific genius which still flourishes in our universities.

In the remainder of this chapter we examine these different aspects of industrial policy. First, we attempt to define where and how the Government should intervene to assist the private sector. In this section we discuss capital investment by Government, Government purchasing, the identification of 'sunrise industries', support for technological development and small business policy. Secondly, we look at one area over which the Government has direct control and which is inextricably linked to its industrial strategy, namely control of the nationalised

industries. We end this chapter with a brief note on two aspects of trading policy.

(ii)

In the previous chapter we listed, very roughly, a number of capital projects which could both have a reasonably quick effect on employment, and increase the real economic resources of the country. It is hard to overestimate the seriousness of the decline in capital investment by the Government in recent years. The CBI is arguing that Government investment in fixed capital formation should be "boosted" so as to assist our economic recovery. Boost is the wrong word. A mere recovery to the average level of the early 1970's would involve a 154% increase in the planned total for 1981/82 as the following table indicates:

Volume of Government spending on gross domestic fixed capital formation

Year	Index
1970	100
1971	97
1972	93
1973	106
1974	99
1975	91
1976	88
1977	73
1978	75
1979	61
1980	53
1981	39
1982 (projected)	37

There may well be a case for a slight increase in infrastructure investment in times of economic recession. Surely there can be no case for a two-thirds *reduction* in such investment at a time of recession, while public expenditure as a whole has increased? Yet that is what has happened. This is the reality of a nation which has lacked the self-discipline to invest and has merely consumed.

If operated with care, a programme of Government expenditure on fixed capital formation would lead not only to an increase in consumer spending through the wage packets of those employed upon it, but also to strengthening of the supplying firms. Suppliers of capital equipment of the kind we envisage would be almost entirely British: this would preclude the import

surge which might be the consequence of other methods of reflation.

Some changes in Government accounting procedures might assist rationality in the assessment of the programme. At present, if, say the Ministry of Defence, by buying British equipment somewhat more expensive to its budget, thereby saves Employment and Social Services money in terms of employment support, MoD still loses in terms of its own budget. There is therefore often an institutional bias in buying Departments to go for the cheapest goods on the world market: in terms of overall Government spending such goods may not be the cheapest at all. Any Government investment programme must not be vitiated by such bureaucratism.

In general, Britain uses its Government buying programme much less vigorously as a support for home industry than do many competitors. Where there has been a programme of strategic support, as in defence electronics or (in the 1960s) large steam turbines, the results have been good; all too often, however, semi-autonomous buying agencies such as the Civil Aviation Authority and even nationalised industries have not regarded it as their business to assist the development of home supply industries. This attitude is a luxury we cannot now afford.

Support for 'sunrise' industries must be undertaken against the background of some general criteria. First, assistance should be concentrated on industrial sectors rather than regions. British industry has in some cases suffered severely from regional aid programmes which tempted companies against their better commercial judgement to build factories in the most unsuitable places. One direct result of this has been, for example, the geographical fragmentation of the British motor industry which reached a pinnacle of absurdity at Linwood and was a major factor in its decline.

For these reasons we welcomed the decision by Sir Keith Joseph in 1979 to halve the proportion of the country qualifying for assisted area status, and to concentrate regional aid on only the most devastated areas. The conclusion must be, first, that to establish new industries somewhere in Britain is more important than trying and failing to establish them where they do not want to be. Second, where a regional imperative is felt to be overriding, the new developments should be concentrated – not one factory in each sector in each region. Third, having decided on a policy of aid to industrial sectors, difficult decisions have to be made

about which industries we wish and can afford to support. Obviously, the objective is to find industries with high growth and profitability prospects. They will often be in areas of new technology, where we sometimes have good basic science and, at least, a chance of winning a reasonable slice of world markets. Suitable candidates in Britain might be computers and micro-processors, aerospace, medical engineering, energy saving equipment, diesel engines, electric vehicles and bio-technology. In every case we should establish the strategy on the basis of the existence in Britain of strong companies or individuals who will be entrusted with the task of carrying the British flag. An even handed support for all applicants merely dissipates scarce resources.

Having selected areas of promise, it is essential that assistance should be on an adequate scale. For example, in West Germany from 1971 to 1975 Government aid for electronic data processing was seven times as great as the UK level of support. In 1980 to 1981 the Department of Industry in this country provided £10 million of assistance to promote micro-processors. While welcome, this is obviously totally inadequate. We can only hope to keep up with our competitors in these fields if we invest at the same or higher rates than they do. Where possible, support should not be through grants but through the purchase for Government or other use of demonstration and prototype systems. As with Government capital spending, purchasing policy is a major weapon.

While the emphasis should be on picking and supporting winners in high technology areas, it will remain necessary to help some traditional industries to adapt and to become competitive. Both France and Germany have recognised this reality. The Germans have subsidised coal and steel and the French their shipbuilding industry. However, we are not now rich enough to compete with subsidies on this sort of scale. Some industries will have to go to the wall. This will only be tolerable if we are seen to be making real efforts to facilitate the growth of new industries.

Nonetheless, there are certain basic industries which are fundamental to the preservation of a country's base. It is difficult, for example, to see how we can survive as an advanced economy without a motor industry or a steel industry. It is not simply that these industries employ very large numbers of people. What is less widely appreciated is the interdependence between the new, high technology industries and these older

sectors of the economy. The construction of a new car assembly plant such as the Mini Metro line at Longbridge creates a domestic market for producers of micro-processors and robots. If Britain ceases to produce motor vehicles, then computer software and machine tool companies lose the home bases they need to develop export markets.

So, in addition to "sunrise industries" it is necessary to select certain traditional economic sectors for assistance. The present Government has already – and in our view rightly – helped the car industry and the steel industry. These were really ad hoc operations taken under great political and social pressure. We should convert them into central facets of our industrial policy and ensure that we are getting as much as possible from them in terms of support for wider British industrial interests.

Choices about which industries to support are fraught with difficulty. It is hardly surprising that the private steel companies felt bitter about the huge amounts of public money poured into BSC. One can imagine the feelings of the management of the Reliant Motor Company which has received no subsidy, while BL is to receive loans of up to £1,000 million. There is bound to be some rough justice in allocating assistance. In some cases this may be lessened by asking companies in a particular sector to co-operate over a particular project. An example of this might be assistance in the development of a national diesel engine by BL, Perkins and Rolls Royce Motors.

We cannot ignore the extent to which our competitors intervene directly in industry. The criteria for assistance in the UK must be either that the industry is a 'winner' or that it is so basic to the economy that we cannot abandon it but must help it to adapt and become competitive. We should then commit ourselves wholeheartedly to support it.

(iii)

This country has traditionally been – and still remains – relatively unsuccessful at developing ideas for commercial exploitation. We produce a disproportionately high number of Nobel Prize winners but we bring a disproportionately low number of native scientific inventions to successful fruition in world markets. The disdain with which we treat our own inventions is well

illustrated by the salary paid to Frank Whittle – inventor of the jet engine. He was given £200 a year. In the field of biotechnology Britain was ahead of the rest of the world in discovering 'monoclonal antibodies' – molecules with enormous potential in fighting disease. But we have done little about this discovery and a Swiss company, Hoffman La Roche, has now gained a substantial lead in developing this important new drug for the market place.

This chronic inability to make use of our own inventions suggests that there is still not a close enough relationship between universities and Government research centres on the one hand and industry on the other. It is also related to the imbalance between military and civil in our research and development programme and to the relatively low status of the professional engineer in this country.

We argue here that Britain's industrial R & D programme must be stepped up and that more money for development should go directly to industry. We also suggest a way in which the gap between the universities and industry can be bridged.

Since the war, Britain's total spending on research and development has compared reasonably well with other European countries. But there is a major difference between Britain and her competitors in how the money is spent. We devote considerably greater resources to defence related research than they do and far less to industrial R & D. In 1980 the British Government allocated £113 million to industrial R & D, France £287 million and Germany £403 million. In the same year we spent £1495 million on defence research, while France spent £1165 million and Germany £416 million.

It is dangerous to draw simplistic conclusions from the difference in emphasis of the British R & D effort, and allowances must be made for technological 'spin-off' from our defence programme. But arguments about the value of spin-off from defence spending have probably been exaggerated. Whether or not it was true that only the non-stick frying pan came out of the US space programme, the number of industrial applications from research into defence must be limited. There is the further question – how do private companies find out what commercially useful research is going on in defence laboratories?

The fact that we put very much less into industrial R & D than the French and the Germans must be one of the reasons why we have failed both to raise our productivity and to exploit high technology for commercial purposes

at the same rate as our competitors.

A striking example of the weakness of the UK industrial R & D programme in relation to other countries is provided by the motor industry.

British Leyland are carrying out exciting research into fuel economy and alternative power sources at their technology centre at Gaydon. But the total amount of help they receive specifically for research is about £½ million per year. (This money must be distinguished from the £800 million loan which the Government has made to BL Cars for the development of a new model range – none of which is available for research.) The Government has also provided Lucas and Chloride with relatively modest sums for the electric van project.

The table below shows the volume of Government aid provided by the Governments of competing countries to their motor industries.

<i>Government Aid to French, American and German Motor Industries</i>	
<i>France</i>	From March 1980, £90 m. over 10 years given to Renault, Peugeot and Matra to improve the fuel economy of cars with a target of 94 m.p.g.
<i>U.S.A.</i>	From 1975, £100 m. given to US motor industry for development of gas turbine engines. From 1977, £4 m. given for development of an electric vehicle. From 1978, £50 m. given to General Motors and other companies associated with US motor industry for fuel economy.
<i>Germany</i>	In 1977, £35 m. given over 4 years to V.W., Daimler-Benz and Porsche to develop a 'safety' car. This has just resulted in the VW 2000.

It is clear from these figures that the American, French and German governments are providing assistance on a very substantial scale to their motor manufacturers in the fields of fuel economy, alternative power sources and general vehicle design. By contrast, BL is receiving a mere fraction of the Government R & D support enjoyed by its competitors. Despite this, Leyland have already achieved considerable success with their fuel economy programme. But we cannot rely on a 'thin red line' of engineers and scientists in an area of such vital importance.

With such disparities in spending, our competitors have left us behind in these and other crucial areas. More Government money must be made available directly to industry for R & D purposes.

A second reason why as a nation we have failed to exploit our scientific inventiveness is the gulf which still exists in this country between academic and industrial life. In Britain the universities and industry have, with some exceptions, not succeeded in developing a mutually beneficial relationship in which ideas born in the laboratory are harnessed by manufacturing companies.

In the USA an imaginative concept – the science park – has proved highly successful in solving this problem. A science park is an area set aside near a university specifically to attract science based companies so that they can make use of the human and physical resources available on the campus. Close proximity facilitates a two-way flow of ideas and information between academics and businessmen. Not only can high technology companies gain from access to university laboratories – but university departments will be encouraged to orientate their research into areas which have commercial potential.

Science parks have succeeded spectacularly in America – the most celebrated example being Stanford in California. Around the Stanford campus billion dollar companies have sprung up starting out on loans of a few thousand dollars. Some of these now dominate the micro-processor market. The Californian chip revolution would have been inconceivable without the close involvement of the universities. Academics sit on the Boards of these companies and money flows from industry back to the universities.

Science parks are already being developed in the UK – the most successful being at Cambridge, where 41 high technology firms have been established and are flourishing. But they are urgently needed in some of the older industrial areas – such as the West Midlands and the North West. They could provide these regions with a stimulus towards the development of a new high technology industrial base – to replace declining traditional industries.

The Department of Education and Science should encourage our universities to establish science parks as part of a general drive to develop a closer relationship between industry and the academic community. However, we have to say that by locking itself into a conflict with the Universities, which is likely to result in only a Pyrrhic victory, Government has not

improved the climate in which to try to extract more imaginative responses from the Universities with regard to the needs of industry.

Finally, with regard to research and development, we return once again to government purchasing policy. Very often an agreement to purchase a new system, including in the price an element for the cost of R & D, will be the most effective conduit of support. The method is well understood by MoD, but often not regarded as an option by other buying agencies.

(iv)

The present Conservative Government has rightly placed great emphasis on the important role small businesses must play in revitalising the British economy. In most advanced countries in recent years, new jobs have been created largely in the small company sector. We cannot rely on the industrial giants to create new employment opportunities in the future. On the contrary they may tend to shed labour as productivity increases.

Small businesses are relatively more numerous and account for a larger share of employment and national product in the USA, Japan and continental Europe than in Britain. This constitutes a weakness in the structure of British capitalism and may go some way towards explaining why we have been less productive, less innovative and more inflation prone than our competitors.

The present Government has introduced some useful measures to help small businesses and encourage the birth of new companies. Unfortunately, much of the action which the Government has taken has passed almost unnoticed because of the recession and concern about high interest rates.

We believe that even more can be done, taking even further the positive discrimination in favour of small business in three areas – finance, taxation and legal complexity and marketing.

On finance, we welcome the Government's loan guarantee scheme. Unfortunately, the combined conservatism of the civil servants in the Department of Industry and the banking community has produced a scheme which is so expensive that it is likely to frighten away the small businessmen it was intended to help.

The Government has set a premium of 3.0% on the guaranteed portion of the loan. This is

very severe compared to the USA which only charges a 'once and for all' premium of 1% and Canada which charges nothing. No comparable scheme overseas has incurred losses on anything like the scale that would justify the 3% premium presently being charged by the Government. It should be cut.

On taxation for small companies, we note that in France, small companies are given the option of paying a simplified flat-rate tax known as the 'forfait', which is constant, predictable and simple to calculate. The small businessman who opts for the 'forfait' needs only to complete a simple form giving his turnover, cost of purchases, number of employees and a few other details. The basis on which the 'forfait' is calculated is set out well in advance by the tax authorities, removing all uncertainty about the size of future tax liabilities. The popularity of this system is indicated by the fact that over 60% of those firms who are entitled to opt for it, choose to do so.

A simplified tax assessment option would not only be helpful to small businessmen in this country, it would also yield reductions in Inland Revenue staff.

On sales from small businesses, we recommend study of the American statute which requires Government Departments to buy 20% of all their requirements from small companies.

There is no published evidence about the proportion of goods which is bought by British Government Departments from small firms, though the figure is believed to be about 5%. While it would be difficult suddenly to set an arbitrary target, at least Government Departments should be required to publish figures showing how much they buy from small firms. This alone would put them under considerable pressure to raise the level of orders going to small companies. Once we have reliable figures, we could consider the costs and benefits of setting targets.

(v)

The Chairman of a nationalised industry in Britain faces a daunting task. From above he is subjected to continuous scrutiny and interference by Parliament, Government Ministers and Civil Servants. From below he is likely to be opposed by the country's most powerful unions, whose members have little to fear from outside competition. Sometimes these two hostile forces

join together and stab him in the back. At the same time the Chairman of a nationalised industry is bound by strict External Financing Limits, so that he is unable to borrow money even for profitable investment once he has come up against the borrowing constraints set by government. It is hardly surprising that the Secretary of State for Industry finds it hard to recruit the 'supermen' required for such a position.

Not only are the nationalised industries difficult to manage, they often appear like millstones round the neck of any government seeking to improve the performance of the British economy. In the year to April 1981 prices charged by nationalised industries including coal, coke, gas, electricity, water, rail and bus fares, postage and telephones increased by 22.8%. By contrast prices of durable household goods produced in the private sector rose by only 5%. Whereas private sector companies have been relatively successful in holding down wage increases, employees in the public sector have continued to enjoy highly inflationary rises in pay. The monopoly suppliers of energy, in particular, have inflicted great damage on the economy by passing the burden of high wage settlements on to domestic and industrial consumers alike. The fact that steel producers have to pay 25 to 30% more for electricity in this country than their competitors in France and Germany is not unrelated to a series of inflationary wage settlements conceded to miners and the employees of the electricity supply industry.

What should the Government do?

First, the present Government's policy of returning as much of the public sector as possible back to private enterprise should be continued with renewed zeal. The sale of British Aerospace shares was a significant success. It should be possible to carry out a similar exercise with British Airways if this Corporation can ever be made profitable. At the same time the Government should continue to break the monopolies of public corporations wherever this is practical. There are several obvious candidates which have not yet been tackled.

The British Gas Corporation is a highly profitable organisation which enjoys both the monopoly purchase right to all the gas in the North Sea and a monopoly of gas distribution.

There is no good reason why an oil company which produces gas from the North Sea should be forced to sell its entire production to the BGC, which then resells it to private industrial customers at a substantial mark-up. Because of

the unrealistically low prices which BGC is able to impose on gas producers, output of gas has undoubtedly been lower than it might have been. There is no justification for the present situation in which gas producers are prevented from piping gas ashore and selling it direct to industrial customers such as the chemical industry. The breaking of the BGC purchase monopoly should be a high priority for a Conservative Government.

Obstacles to the breaking of State monopolies are powerful in such politically sensitive areas as coal mining. It is ironical that there are a number of highly successful British companies, which run extensive mining operations overseas, but which are debarred from coal mining in the UK. All governments – especially Conservative ones – are frightened of doing anything radical about coal mining. But at least Conservatives should consider allowing private companies with mining expertise – such as RTZ or Costains – to participate in the new development of the huge new coalfields – perhaps in partnership with the NCB.

Inevitably, however, there will remain certain areas of the public sector where the barriers to privatisation are insuperable. We must, therefore, look at every possible method of making the remaining corporations – and they will be the majority – more efficient. One approach is to break them up into smaller units. There is no reason why the Central Electricity Generating Board should not be organised on a regional basis – leaving only a skeleton headquarters staff. This would at least give the consumer – and management – a yardstick with which to measure the efficiency of one regional utility against another. It might then be possible to introduce some element of choice where an industrial consumer was located near the border between two regions. Eventually private capital might be introduced into these smaller and more manageable units. We should then have a pattern of mixed enterprise regional utilities similar to that predominating in the USA and throughout most of Western Europe – a pattern which has served these countries well.

Another key element in seeking to improve the efficiency of unsaleable nationalised industries is to ensure that the most able people available are found to run them.

A condition of finding good managers willing to do the job is that interference by Ministers and Civil Servants should be reduced to a minimum. They must have the maximum freedom to run their organisations as they wish, within

clearly established criteria. They should be allowed to borrow where they can, under the clear understanding that if they cannot meet their commitments they will not be prevented by Government from defaulting. However, this increase in independence should have one savage quid pro quo: all nationalised industries should have to apply to a permanent public sector prices board to validate their price increases.

It is intolerable that natural monopolies with, effectively, the power to tax, should be subject to no effective audit of their need for price increases. Obviously, if they are to borrow more freely, their power to price at whatever level they wish must be restricted or they will find themselves possessed of a gigantic power to distort the economy.

(vi)

Finally, the world recession has thrown the industrial countries into very sharp competition for diminishing markets. It should never be forgotten that Britain's trading performance remains remarkable in terms of the percentage of the GDP which she exports. Nonetheless, from all our constituents who trade overseas or face competition from imports at home, we hear

the refrain that Britain is still playing cricket in terms of trade policy while our competitors are engaged in some even more vicious game. In terms of anti-dumping policy, now the responsibility of the EEC Commission, we believe this anecdotal evidence: it does not seem conceivable that so small a European office, even supported by national Departments, can possibly be equal to the task. As President of the Council of Ministers, Britain is this year in a good position to see that the Commission is given the resources it needs to deal with the problem of dumping. This should be a high priority.

The same sort of complaint relates to our attitude to inward investment. Britain, as a huge investor overseas, has to tread carefully. But we should beware of welcoming all and every foreign investment, regardless of the consequences for our own industries. Is it really sensible to try to lure here a Japanese car plant to compete at Japanese levels of efficiency and with largely Japanese imported components with BL on whom we have just spent a billion pounds or so?

We should perhaps emulate, on the other hand, the way the French involved American computer firms in their own national computer strategy; on the other, we should make sure that any country investing here is as liberal as we are in its own attitude to inward investment.

4 Employment and Productivity

(i)

At the beginning of this century Britain enjoyed a per capita GNP which was 91% of the United States' while the French and German were approximately 50% of America's. By 1979 the figures were: Britain 55%, Germany 98% and France 89%. In 1979 income per capita figures were: Britain \$4524, France \$7321, Germany \$8019, America \$8220.

In 1977 our output in the engineering industry on a value added basis was 28% of America's, 61% of Germany's and 49% of France's. Our rate of capital investment was in roughly the same proportion. At the same time, wages have been taking up a much greater, and profits a much lower proportion of our total production than is the case with our competitors.

Something has gone severely wrong with the way we organise ourselves at work. Trotsky wrote in 1933:

'The fact that Germany and the United States have now economically outstripped England was made possible by the very backwardness of their capitalist development... England is paying up for the past when she played too long the role of capitalist pathfinder.'

(The Russian Revolution)

The total modernisation of the German and Japanese economies after the destruction of the Second World War only re-emphasized the phenomenon Trotsky had already noted. Today we therefore live still with massive subsidies for employment in the dying industries of the first Industrial Revolution. Many of our industrial attitudes are equally old.

Both trade unions and management still spend most of their time fighting the battles of the past. Many trade union leaders live in a world that stopped in 1932. They believe that the bosses are only interested in forcing as much output out of the workforce for as little return as possible. It has not made the slightest difference to them that since 1945 the bosses have become in many sectors the public and the government. They see a world in which industrial relations problems can only be solved through conflict.

They fail to recognise that there is more in common between manager and worker than that which divides them. 'Management must manage but we must have the power to make it impossible for them' seems to be the philosophy.

On the other side much of British management has failed to win the trust and support of their workforce whose loyalty on the whole, and particularly in the larger enterprises, is still to their class and their unions. Belatedly many companies are introducing improved methods of communication but whether communication from top to bottom without real participation and involvement will make much difference remains doubtful.

To many managers and union executives the battle is still one of power. In between, like the corpse of Patroclus, lies British industry.

Faced with this situation, and with the failure of both previous Labour and Conservative attempts to introduce some modicum of legal order into the jungle established by the 1906 Trades Disputes Act with its immense legal privileges for Trades Unions, we welcome the careful approach of the Government. On the one hand the Government has relegated national Trades Union leaders to a more modest role in the national life, which modesty had for a time been abandoned under the last Labour Government. On the other, the Government has not listened to its more extreme supporters, but has passed the Employment Act 1980.

This 1980 act is extremely important to the future of industrial relations for it sets a limit for the first time to the immunities granted under the 1906 Act. Many of the tactics developed over recent years such as secondary picketing and secondary action could not have been foreseen by the fathers of the 1906 Act. The public had become increasingly tired of the bully-boy tactics of a minority which used the 'closed shop' not as a means to enforce agreements reached with employers but as a method of threatening those who did not follow their orders.

Many workers found themselves dragged into disputes or stopped from going to work in

support of people of whom they had no knowledge and with whom they had no contact. The Employment Act gives the right to an employer when confronted with secondary action or secondary picketing to take an injunction against those organising such tactics. This Act was specifically designed to work in the interests of an employer and his employees.

The Act also balances the powers available to a union under 'closed shop' arrangements by giving employees a right to claim unfair dismissal if attempts are made to force them to join a union against their will or if they have grounds of deeply held personal conviction for not doing so. Finally the Act removes some of the protection given under previous employment legislation which has acted as a deterrent to employers taking on additional staff.

We now have to decide how much further the Government should proceed by means of legislation.

Any law to be effective in this area has to be accepted by the great majority affected by it for the great majority of the time. No democracy is equipped to deal with massive disobedience of the law either criminal or civil as it has neither the means to enforce the law nor the facilities in which to house the recalcitrants if they persist.

The problems arising from the introduction of tougher laws to regulate industrial behaviour are no different now to what they were 100 years ago. Men and women do not undertake industrial action lightly. They normally believe that they have genuine grievances which for whatever reason have gone unattended. They are not therefore likely to accept blanket regulation which they think unfair when applied to them, however reasonable they may believe it to be when applied to others. Opinion polls are not necessarily safe guides to what will turn out to be accepted in practice.

On the other hand, it is also important for a Conservative Government to remember that the balance of power within the union movement is constantly moving away from the old blue collar unions to the more articulate and sometimes more radical white collar unions. These, although sometimes led by left-wing militants, nevertheless have a high percentage of Tory members*, who are less bound by the myths of the past, and perhaps less hostile to the law.

*The Conservative Party realised the significance of this while in Opposition and re-established the Conservative Trade Unionist Movement which for the first time began seriously to influence internal union policies. We would be most unwise to downgrade this section of Party organisation now that we are in power.

We judge, nonetheless, that the need to win acceptance of changes in the law precludes the wholesale abolition of trade union immunities which form so much of the 'custom and practice' of industrial relations. It precludes the total abolition of the 'closed shop' which would be forced underground as happened under the Industrial Relations Act of 1971. It precludes the compulsory introduction of legally enforceable collective agreements or the sequestration of union funds where secret ballots have not been taken in support of strike action. (Most disputes start when workers walk out in disgust over failures to discuss or negotiate what they believe are reasonable demands.)

There are, however, several measures that the Government should undertake to reinforce the step-by-step approach already begun.

First, the law should be amended so that if desired by both sides collective and procedural agreements could have legal enforceability. Circumstances have changed much in the last fifty years. The rise of white collar unionism means that within the near future there will be more members of white collar than blue collar unions. Furthermore, because of lack of legal sanctions many agreements are sloppily constructed as there are no direct financial sanctions on either side. Employers are as likely to disregard such agreements as are unions and there may well be cases when an annual contract with legal backing would be of benefit to both sides.

Secondly, there should be higher levels of compensation for those forced into 'closed shops' against their will at the behest of politically motivated or weak employers. There should be considerably higher damages granted for failure to re-instate them for unfair dismissal.

Thirdly, we should put a stop to union-only contracts where a customer insists that all those working for his suppliers should be members of a union.

Fourthly, provision should be made for reconsidering trade union membership agreements where a demand is made by a significant percentage of the workforce. (In such cases a 'closed shop' agreement should continue where a majority of those voting decided in favour.)

Fifthly, amendments should be made to the law so that the withdrawal of a few key workers does not force employers to maintain guaranteed payments to the remainder of the workforce.

Sixthly, negotiations should be undertaken aimed at removing the right to strike in key industries in return for compulsory arbitration

and conciliation over disputes. The groups of workers affected by these proposals should be small in number but crucial to the health and safety of the public.

But even with these further changes, much will remain to be done which Government cannot initiate. It will remain up to the unions and the TUC to put their own house in order. The number of unions is still too large. The TUC lacks sufficient authority to discipline its members. Too often union rule books have more relevance to the 1880's than the 1980's. Too often the contributions that unions insist on making on economic and other policies are of a much lower standard than they should be. Even in areas where their expertise should be crucial, they have played a small role. They have shown little interest in the problems of raising productivity. They have come up with no achievable solutions for reducing unemployment or improving the shortage of skills. They have become sullen, defensive and negative.

It is important for the Government not to drive the unions further into their ghetto. A practical bridge can be maintained by developing further the role of ACAS which has established itself as a professional and highly respected impartial institution in the mediation of industrial disputes. The vast majority of disagreements that occur can only be solved by the sensible assistance of a third party because the authority of both unions and employers has become increasingly devolved and fragmented. More important, however, the unions should be encouraged to join in the debate on the future of Britain's economy. They are part of the established institutions of the country. Their leaders may have little power to deliver their members against their wishes but they still have considerable negative power to delay or hinder positive improvements. It is not necessary to break off all dialogue in order to avoid making the opposite mistake (like the last Labour Government) of delivering a veto on decision making into the unions' hands. In this, as in other matters, there is a middle way.

(ii)

It would be unwise to believe that the present dramatic reduction in industrial disputes and the apparent willingness of the workforce to accept redundancies and changes in work practices is anything other than the outcome of

the recession and the fear of unemployment. It would be a brave man who would claim that once the recession eases there will turn out to have been any fundamental change of attitude or underlying improvement in the national rate of productivity. If the grudgingly conceded gains of the recession are not to be wasted, it will be necessary not only for the recession to end and unemployment to fall, but, crucially, for management to set up the mechanisms through which their employees' present acceptance of reality will develop into a lasting partnership. It is much easier for employers to explain why they cannot afford wage increases and to open their books to inspection when orders are thin and work at an ebb than it is to do so when sales are booming and profits rising. If those conditions return, the temptation will be to return to the habits of the past.

There is an increasing range of techniques now available to industry for developing the necessary improvement of relationships. The scope is very great. If the output of a British worker is compared to what he is capable of achieving once he emigrates to America or Canada it would not be unrealistic to say that he is generally working in Britain at an average of 30% of his true capacity.

The role of Government may be limited. Certainly Lord Bullock's report on industrial democracy served to set back the cause of greater participation by many years. Any Conservative proposals must be based on concern for the individual within the enterprise and intended to assist him to develop his opportunities and his talents for the greater efficiency and profitability of his organisation. Having said that, and recognising that without the commitment of industry, nothing the Government can do will help much, we do see some areas where we should take initiatives aimed at the promotion of industrial harmony, improving the underlying rate of productivity and creating better conditions at work.

One way forward, where only Government action can make things happen, is to match the Government's efforts on the dissemination of capital through the disposal of council houses with a similarly determined strategy for wider share ownership, and the development of new forms of ownership. Tax advantages similar to mortgage relief for those buying shares in their own company; further support for co-operatives and other co-ownership schemes, relief from income tax for bona fide share ownership schemes, might all be part of a thorough-going attempt to

extend the property owning democracy away from simply housing.

Other, lesser, initiatives aimed at changing the relationships in industry might usefully involve the following.

We should accept the European initiative on making a wider degree of information available by law to employees.

All employees in companies employing more than fifty people should receive as a legal requirement the annual accounts and have the right to attend an annual meeting for discussion with management.

The Government should introduce a Code of Practice on participation procedures just as it has done on the closed shop and picketing. It should be perfectly legitimate for an industrial tribunal to take into account the record of a company's behaviour towards its staff when coming to a decision.

The Government should issue a Queen's Award for Industry to those companies which had excelled in increasing the share ownership of their staff, improved their productivity and achieved industrial harmony.

5 Improving our Labour Force

The Problem

The present labour market in the UK is dominated by the surge of school leavers entering the work force. This reaches its highest point in 1981 and then declines gradually between now and 1984/5, and more rapidly thereafter until by 1990 only 70% of current numbers will be entering the labour market.

Current trends show that the number of those employed in manufacturing is falling rapidly while employment in service industries remains relatively stable. By the end of 1980 there were 6.4 million employed people in manufacturing, compared with 8.5 million in West Germany which has a population of 62 million as against 52 million in the UK. There is no corresponding manufacturing decline in West German industry which has approximately double the output of the UK.

There are now approaching one million more women in employment than there were a decade ago and one million less men. There is undoubtedly a very substantial reserve of women wishing to enter the labour market who currently cannot find work.

Unemployment in the United Kingdom is highly concentrated amongst the young and those over fifty, and in the old industrial areas of the English regions, Scotland and Wales. Redundancy payments have cushioned older employees and have made it easier for employers to shed people. However, once redundancy money has been exhausted the chances of finding new employment or acquiring new skills are extremely remote for those in later middle age.

Mobility in Britain is very restricted. This is a constraint we share with West Germany, where efforts to persuade workers to move have largely failed. This lack of mobility is probably related to the density of social and cultural ties – not to mention planning constraints – in an ancient country: to expect the European nations in this respect to emulate the mid and far west of the USA is pie-in-the-sky.

We therefore face the grim fact that approx-

imately 2.5–3 million are likely to be without work for some considerable period. They will be concentrated mainly in declining areas of manufacturing activity. They will either be men made redundant in their late forties or fifties or those leaving school with few educational qualifications who will find it difficult to gain any experience of steady employment. A third category, perhaps the most crucial of all to the future of the economy, comprises those who have significant skills. Some of these may have deserted their crafts and moved into semi-skilled employment from which they will be reluctant to change. In the last year the number of skilled people made unemployed has risen by 80% compared to 40% generally and the number of those out of work who have a skill or trade represents 12% of the total.

Although young people will face greater problems in certain parts of Britain many of them will face difficulties wherever they are.

In 1981 there will be 900,000 young people attaining the age of sixteen. Approximately 200,000 of these will continue into further education. Of the remaining 700,000 perhaps 80,000 will gain apprenticeships, 250,000 or so will find jobs with no further training element and the remainder will rely on Government sponsored schemes or social benefits.

Those gaining apprenticeships will become indentured for three or four years into courses which are still very much longer than they need to be and they will start with a wage of perhaps £37.50 to £40 per week. Those lucky ones with jobs will on average receive £50–£60 per week while those who end up on work experience schemes receive (in August 1981) £23.50 before falling back on a supplementary allowance of £15.35. For the apprentices and some of those in full time employment there will be the opportunity of additional educational advancement through vocational preparation via day release courses (6,500 – 1981/82) and a certificate sponsored by the Business Education Council, Technical Education Council or City and Guilds (80–100,000). The remainder will receive no further formal guidance.

The contrast with Germany, where a roughly similar number will attain the age of sixteen, is marked. There 200,000 will also proceed to higher education, but the other 600,000 will enter apprenticeships with compulsory day release to vocational schools before making up their minds which career to follow. All of them will receive an allowance of approximately £25 per week in their first year.

We greatly welcome the package of measures announced by the Prime Minister in July. The number of places available under MSC schemes for young people was considerably expanded; money is to be spent on trying to retain youngsters in school for longer; and early retirement is made easier. The MSC is doing a remarkable job of carrying, more than any other organisation, the immediate weight of the recession. Nonetheless, the rapidity with which it has had to expand and the temporary nature of many of its schemes, means that there is a certain ad hoc quality about much of its work. As fewer people coming out of the Youth Opportunities Programme retain jobs (the retention rate has fallen from 60% to 38%) cynicism about the programme amongst young people will continue to grow. The relatively low real training content of many schemes, providing no qualifications and with little check on the youngsters' progress, will tend to discredit the whole operation.

We believe that the opportunity should now be taken of reorganising post-school provision much more radically.

We should commit ourselves to guaranteeing that every young person not progressing into higher education will have after school at least one year's training, rising to two years by 1990, before entering full time employment. This should combine training on the job to agreed standards with a period of vocational preparation through day release to college. There should be nationally agreed pass rates and examinations which will lead to nationally approved qualifications. During this period young people should be paid something like the German allowance regardless of what occupation they have decided to follow. The figure should be related to the grants available for those in higher education. There will undoubtedly be union opposition over the level of the allowance, based on fears that adult jobs will be taken by the trainees. The more educationally based the traineeships, the less this threat should appear. This anyway is one area where a battle with entrenched union attitudes could be undertaken with conviction.

At present, the control of programmes aimed at training and preparation for work is amazingly fragmented. The Department of Education and Local Education Authorities control schools, polytechnics and colleges. The Universities are autonomous. Careers Services are run (or not run) by LEAs. The Business Education Council and the Technical Education Council come under Education and Science. The Department of Employment controls the Manpower Services Commission. The Industrial Training Boards (now under review) deal with industrial training. It seems to us obvious that there should be one authority responsible for the whole range of 'bridge to work' programmes. Some of us believe that this should be the MSC. Others believe that if there is to be effective co-ordination with, and use of, educational resources, it should be the Department of Education and Science – though it would have to undergo considerable changes in order to be able to do the job properly.

The costs of upgrading the MSC's present schemes into a proper national general apprenticeship scheme on the German model are not as great as might appear. Not only is there the saving of supplementary benefit for those who at present do not join a scheme, but a much higher genuine training content should help to prevent the rise in the number of young long-term unemployed (immensely expensive to the State) which might otherwise be expected as young people are left behind permanently in a swiftly changing technological period.

The Government has started out down this road. With sufficient determination, it could actually bring us out of the slump with the sort of sensible traineeship regime which we have needed for years.

The near crisis of youth unemployment – which will recede to some extent for demographic reasons in due course – should not blind us to the urgent need for greater training resources aimed at the adult unemployed who may need to change careers to find new work. We suspect that the Training Services Division of MSC are not necessarily tackling this problem in the right way. The prime responsibility should fall on existing companies, since the objective should usually be to retrain people for the new skills which are required to modernise existing businesses. It may be that more Government help should go to companies for this purpose.

The Government has recently announced its intention of reversing its earlier raising of the age limit for the Job Release scheme. We welcome this. We are not agreed on whether or

not a reduction of the compulsory retirement age would be right. Several of us believe that early retirement is the best way of achieving a change in the structure of our working population and that without such a change, unemployment is unlikely to be much alleviated. It is, however, expensive: the net cost of reducing the retirement age to 60 (and – assuming two thirds of the jobs go to the unemployed – reducing unemployment

by 600,000) is said to be about £1800 million. But many people do not want to retire early, and it might be that the net effect on the quality of the work-force, as skilled and experienced workers made way for less committed youngsters, would not be helpful. A sensible half-way house might be simply to make the retirement age more flexible.

6 Social Policy

All political parties now accept without question that Government has a broad range of obligations that may conveniently be grouped under the heading of social policy, but the nature and extent of those obligations, their priorities and the best way of meeting them, are open to debate. Great strides have been made since Disraeli set out "to elevate the condition of the people". Since the wartime coalition Government set up the Beveridge Inquiry in 1942, the standard of living of the vast majority of people has risen substantially and wealth has been spread more evenly than ever before.

Nonetheless, we still have real poverty in Britain, measured absolutely and not relatively; Conservatives should be deeply concerned that this is so – much more concerned than by arguments based on 'relative deprivation' which can and will exist at any given level of average welfare. Without underestimating the achievement of the welfare state constructed by both parties since the war, its inability to eradicate (as had been hoped) the remaining primary poverty, together with its enormous and growing appetite for resources, compel us to look at the structure rather more radically.

We cannot here offer anything like a complete analysis of the present welfare state nor of alternatives to it. We do however suggest a theme which we believe should run through the complexities of our tax and benefits system – namely, the family. Without trying to claim that Conservatives alone value family life, it is inherent in our view of the duties of government that we should take care to protect the cells of the organic society we wish to try to conserve. Of these, the family is the most basic. In a number of respects we have taken little care of it. Obviously, no Government can do much to withstand (though it may regret) the deep cultural shifts which have led to the much more frequent break-up of families and have resulted in the emergence, as one of the most important new social phenomena, of the one parent family. (We should on the other hand feel no guilt about resisting where possible those who, for reasons of crude individualism or simply commercialism,

want to undermine family life further). But we can ensure that the basis of policy is towards support of the family whether in traditional guise or one-parent form. At present this is not often the case.

The greatest threat of all to family life comes from poverty. Of the remaining poverty in Britain, the greater part is concentrated on the poor with children. This is not tolerable. What is more, the trend is the wrong way.

Whilst the total number of people living below a level 40% above supplementary benefit rose by 34.8% between 1974 and 1977, the proportion of children in this category increased by 58.7%. As the purchasing power of Child Benefit has not been maintained since 1977, there is no reason to believe that the trend of increasing child poverty has been reversed. The transfer of the tax burden from direct to indirect taxes has not helped those who paid little in direct taxes; and a disproportionate share of the burden has fallen on families. Whilst the tax threshold for single persons has fallen by 10% since 1974, it has fallen by 12% for families with one child and by 17% for families with four children. In the same pattern, whilst the percentage of income paid in tax and national insurance by a single man on average earnings has risen by 63.2% over the last two decades, that paid by a family with four children, on average earnings, has risen by 651.6%. More alarmingly, in the last couple of years, the burden has shifted markedly to families with low earnings, whose tax bill has risen by 68.4% in the case of those on half average earnings, compared with 11% on average earnings and 0.7% on those with twice average earnings. Every dimension of the problem is of course worsened by growing unemployment.

The case seems strong for the promotion of family income at the lower end of the scale. This would hardly be feather-bedding: it would merely help families to undertake the immensely important responsibilities of maintaining decent family life for their children. Foremost among these must be the actual role of parental participation itself. There are many historic reasons

for the working/absent parent syndrome, the growth of the 'nanny state' and the increasing incidence of the 'latchkey kid' problem. Financial necessity, as much as the understandable desire to maximise family income and their standard of living, has played its part. So, no doubt, has the social revolution which has encouraged so many women to pursue a career of their own outside the home.

While there are many ramifications in practise, we support the concept of a mother's benefit or allowance. It should be judged on the basis of the philosophy we have already stated: the need to reverse the undermining of the family in its full and true sense.

In pure cost terms to the Government, it has previously been rejected. We suggest that this is because it has been examined on its own, on the basis of gross-cost to the Exchequer. In fact, the implications in financial terms spread far wider. What is it that has created the need for nursery education, professionally staffed, as against the infinitely more parent-orientated and less expensive play-schools? What is it that has created the need for increasing numbers of social workers to deal with 'family problems' (or 'problem families') where both parents are employed? These are real costs which must be put into the equation. Even so they are probably only a tiny proportion of the overall cost, unquantifiable though it may be, which derives from the fact that many families only feel it possible to avoid poverty by having two incomes.

Combined with the mother's benefit or allowance should be a real uprating of child benefit. Child benefit is the only mechanism whereby help can be brought to the poor in work; it lessens the 'why work? syndrome' (since it is deducted from other benefits received, if you are out of work, but is not taxed if you are in work); and it directly addresses the problems of family poverty. At present, as a result of a hang-over from the 1930's, benefits for the children of the unemployed are higher than child benefits which worsens the marginal rate problems.

How should all this be paid for? In the end, we would argue, help for families will pay off in many different ways. This is not an argument likely to impress the Treasury. Other savings would have to be found. Child benefit could be taxable for higher rate taxpayers. But in our view the main logical target is the married man's tax allowance. This should be frozen, then reduced, and finally abolished. The shift would be away from a life-long allowance aimed at married couples towards a very considerable

increase (via mother's allowance and greatly increased child benefit) in income directed to a family with children and a non-working mother at the time when the children most need their mother at home and when poor families are most vulnerable to the demands of increased expenditure for the children. The worst losers would be childless couples, both working: but at every income level they are the best off at present by far. It is hard to think of a policy change which would be more profoundly Conservative in its implications. We have here applied the family test to the tax-benefit-poverty-trap nexus of issues. Doubtless other aspects of policy, approached in the same way, would produce the same results. We turn now to a brief review of issues in the field of care of the elderly and health care.

We should not forget that the greatest change in the structure of our society this century has been the almost fourfold increase in the number of people in the United Kingdom who are above the retirement age. This trend will continue beyond the end of the century. Within that increase, the proportion of those over 75 has grown at an even faster rate. Our social policy, which already commits very substantial funds in this area, must provide for a still larger and continuing call upon it.

A secure and protected pension is important, but it is only the beginning of the answer. The old are no more homogeneous than any other section of society and our provision for them should take account of the wide variety and diversity of their needs and wishes. We have already argued against a reduced pension age for men on the ground of expense. It should be opposed, too, from the point of view of old people: not everyone wants to retire earlier and, whatever must be done for the young, older workers have rights too; their problems after retirement are often more intractable than those of their more resilient juniors.

Flexibility is a better approach. Our aim should be to widen the choice open to people as they grow older, by loosening the tight guidelines that at present govern the provision of pensions, both public and private, and introducing a range of options and alternatives between the ages of 60 and 70. The extension of the availability of inflation-proofed government stock entitlement is welcome in this context. Our long-standing commitment to phase out the earnings rule is also highly desirable; and so is our aim to lift the burden of taxation on investment income, particularly in the hands of pensioners. Essen-

tially, because the state cannot be sure in the long run of being able to meet its obligations to its growing population of pensioners – just to maintain the present level of pension in real terms will pose a daunting challenge – every opportunity should be taken to allow and encourage additional self-help.

The family theme is relevant here, too: it is perhaps surprising that, at a time of supposedly disintegrating family ties, surveys continue to show a high level of obligation among families to support and care for their elderly members. Government's role should be to encourage that commitment and to provide the supporting services that will enable it to operate to the greatest effect. Part of this could be achieved through taxation – for example, by extending and increasing dependant allowances. More significantly, there is a need to develop and co-ordinate a partnership between, on the one hand, central government and the local authorities and, on the other hand, the large network of voluntary organisations and individuals that does so much to meet the many and diverse needs of old people in a wide range of environments.

The inevitable pressure on the resources of the National Health Service of an ageing population, of the steadily increasing expense of medical equipment, and of an economy which has stopped growing, has combined in recent years with a fairly rapid growth of private health care. The simplistic responses to this are to say, either that we should assist the growth of private health care and not worry too much about the problems of the NHS; or, in the opposite sense, that private health care is abstracting resources from the NHS and making them available only to those who can pay. Neither view is right. The NHS as a structure is (contrary to what many people believe) more

efficient in its application of money to general health needs than are the insurance backed schemes of other countries, and we have no doubts that the Conservative Party should remain committed to it. On the other hand (quite apart from arguments derived from personal liberty) the private sector clearly *increases* the total resources applied to health in Britain, and increases the supply of trained staff. We are however worried by potential duplication and waste. The Bevan compromise between private and state provision turned out in practice to be immensely wise. We should now endeavour to rebuild bridges between the two sectors. In some areas (such as cardio-surgery) the NHS might find it sensible to contract to buy services from the private sector. In others there may be room for co-ordinated planning of facilities. The Government has protected the capital spending of the NHS even in the recession, which should prove Conservative commitment to the NHS. On the basis of this record we should now quite deliberately start to rebuild the bridges between private and public health care which Barbara Castle and David Owen, equally deliberately, destroyed.

We have not done more than sketch in the briefest of terms the kind of approach to social policy which we envisage. We wish to make the point, by these few examples, that in a time of extremely scarce resources, if the Government is to do more than simply struggle to protect the basic social programmes, it will need to set itself some extremely simple priorities. The family, we argue, should be one; removal of all obstacles to self-help amongst the elderly another; and the development of co-operation between private and public sectors in health care another. In social policy as elsewhere, we should not appear simply to be buffeted by events.

7 Constitutional Reform

It is a mistake to believe that because our Constitution is fundamental it must therefore be unalterable. In fact it is largely Victorian in origin. If it has proved stable it is a tribute to the soundness of that Victorian design. It has already been adapted significantly in the present century. The Parliament Acts of 1911 and 1948 have limited the power of the House of Lords. That limitation reflects a continuing reduction in authority as real power moved further from the hands of the wealthy and the landed towards institutions, both national and local which in theory at least derive their direction from the ballot box. At the same time the franchise has been widened, first to women in 1918 and more recently, if less spectacularly, to all over the age of 18.

A further change in real power has been the development as centres of wealth and power of the huge corporations, the great nationalised industries, and the trade unions. The granting of widespread immunities to the trades unions in 1906 and the flow and ebb of that tide of privilege are constitutional developments. If we learn to recognise them as such it should give us a clearer insight into the direction we ought now to follow.

As Conservatives we should be pluralists. In setting our constitutional framework we ought always to remember that our objective is to create a system which, while it allows the executive sufficient power to manage a competent government, encourages around this relatively modest governmental edifice the widest possible opportunity for the individual to live his own life and direct his own affairs unencumbered by excessive control either of the state or any other powerful body, public or private. To achieve this requires a Constitution which should provide not only checks upon the executive, but balances against tyranny. At the same time as providing a measure of control upon the operations of Government our legislature ought to be so composed as to prevent any radical alteration which lacks the support at least of a clear majority and perhaps an overwhelming majority of our people. It is this fear of a takeover under

our present system by an extreme party whether of leftist or other complexion which is for most people the dominating stimulus for constitutional reform.

Three types of reform of the legislature present themselves: reform of the voting system to elect the House of Commons by proportional representation; and two differing types of reform of the House of Lords. The first type of House of Lords reform proposes that at least the voting membership of the Second Chamber should be wholly or substantially based upon election by a system of proportional representation. The second proposes a reform of the House of Lords to provide that its membership should be substantially altered on a corporate basis to provide seats in differing numbers to the great interests and institutions of our day. It is worth examining each of these proposals in turn.

There are two reasons why a Second Chamber is needed. The first is to act as a revising chamber in which legislation can be reviewed and improved before reaching the statute book. The second and more fundamental reason is to act as a constitutional anchor. To perform this task the second chamber must have the self-confidence and authority to reject at least for a substantial period major legislative proposals which do not have the support of the clear majority of the nation. The existing House of Lords performs the first role quite well. It is its second but fundamental role which it is no longer able adequately to perform.

This is because hereditary peers, first, no longer constitute a class exercising real power as did the landed aristocracy in the days when land, wealth and power were synonymous; and second, although still held in surprising affection by many people, they no longer command enough respect from the nation as a whole to justify their exercise of legislative power. Nor has the system of appointing life peers filled the gap, attractive as it is to politicians, senior public servants and those who have achieved commercial success, and who enjoy the status and privileges which the title and membership of the House of Lords still confers. The fact is that

the number of people in any generation whose personal prestige in the country is such that the nation is ready to see them appointed for life as legislators entitled to gainsay an elected House of Commons are too few to man a second chamber and even those few who do emerge are by no means always ready or willing or by reason of other commitments able to devote the time and effort required.

Proponents of an elected Lords argue that the only source of authority sufficient to justify the exercise of these vital restraining and revising powers is the very source which entitles our executive to govern and our legislators in the House of Commons to legislate in the first place – election by universal adult suffrage.

This immediately raises the question of method of election and the problem of conflict of authority between the two chambers. But it can be argued that not *despite* but precisely *because* of this conflict, which will be real, a system under which the House of Commons continues to be elected on a first past the post system but the House of Lords is elected by a system of proportional representation would provide a method of firm executive government coupled with stable constitutional control.

The House of Commons, on this theory, should continue to be elected on the "first past the post" method. With the exception of the period 1974–79 this has given the Government of the day a reasonable working majority. Even with a tiny majority the recent Government proved able to govern and to procure the passage of legislation necessary to implement its policies; and if the nation has been dissatisfied with the Government, a fairly small percentage shift in the vote has enabled the other main party to take its place.

The disadvantages of the system have been that in recent years the difference of approach of successive governments has been greater than the country as a whole would seem to have wished. A desire merely for a changed emphasis sought by the electorate, or even the mere natural dissatisfaction which builds up against any Government after a period of time, has then led to shifts of policy which if the majority could have had their way they would probably not have supported. With rare exceptions the House of Lords has felt unable to oppose such measures, partly for fear of abolition, and partly because it knows that it lacks the authority which derives from the electorate.

The proposal is therefore that the House of Lords should be elected on a system of propor-

tional representation, with life peers elected on a regional basis but without individual constituency duties. There is much to be said for a rolling chamber with election every three years, each member sitting for nine years and one third of the chamber standing for election on each occasion. There might be 250 members, based broadly on the 81 Euro-seats divided into 15 regions electing five members each every three years on a proportional basis.

It will be recognised at once that the likely result is that there will seldom be a majority for any one party in the Upper House; that the Liberals, Social Democrats, Nationalists and other minor parties are likely to have significant representation and might well hold the balance. Such an Upper House need not have more powers than the present Lords; the only further power it might have is the absolute power to oppose its own dissolution. Just as the present Parliament Acts prevent a government from extending the terms of a Parliament beyond five years without a majority of both Houses, no further constitutional change should be permitted without the majority vote of both Houses.

There are of course a number of objections which can be raised to these proposals. The new chamber will challenge the authority of the Commons; proportional representation will be seen by some as the thin end of the wedge liable to infect the whole system; it will be said by many that it is likely to divide the Party; or that it would be impossible to get it through the House of Commons.

An elected House of Lords would certainly be a break from the past. But it could not be laughed out of court and it can fairly be said that it would have as sure a foundation as any other British institution. And of course it would be one of the *objectives* of reform that to some extent the Lords should challenge the Commons – certainly that it should act as a check upon it. As Lord Hailsham has said so effectively, there is little objection to the largest minority interest having the right of executive government and legislative initiation; but there is much objection to its exercising a 'legislative dictatorship'. An elected Lords would continue to provide many Ministers of the Crown. There is every reason to suppose that those who have already served with distinction as hereditary or life peers in the present chamber would have little difficulty in securing nomination for election to a seat in the reformed Upper House. The longer term and certainty of period of office would help to attract more people of calibre to the task. It is open to

doubt whether the fact that a system of proportional representation has been adopted for the Lords would make any difference one way or another viz à viz the introduction of the same system for the Commons. That should certainly not act as a reason for resisting any change.

An alternative programme of reform argues that it is of the essence of the House of Lords that it should represent in the legislature the great centres of real power, authority, learning, judgement, and spirituality throughout the land. King, Lords and Commons; anointed Sovereign, Lords Spiritual and Temporal, common people electing their spokesmen, together forming a trinity exercising sovereignty; herein, goes the old argument, lies the strength of the British constitution. Our duty as Conservatives is not to undermine but to renew. We should therefore see that the barons of today, the captains of industry and leaders of the great corporate structures – find their rightful seat in the Lords. Seats should be granted to spokesmen nominated by the CBI and TUC; by the Chairman of the County Councils and the great Metropolitan counties; by the members of the European Parliament; by the Universities; by the Education Authorities; by the learned professions; by the great nationalised industries; by associations of small businessmen; by the Red Cross and the Voluntary agencies; by the protectors of our environment and heritage; by the Churches of many denominations, not merely the established Church; by the Judiciary; by the Civil Service; by all the great institutions who exercise a de facto power and influence in the land and who should be brought within the embrace of the legislature.

The precise numbers and the process of nomination must provide both for sufficient security of tenure for individual nominees to exercise independence of judgement, but sufficient frequency of change to reflect the changing attitudes of institutions whose needs or political colours develop or alter. The same provisions about powers of delay and non control over money Bills would apply as with the previous proposals. An alteration in the Parliament Acts would be essential in this case as well to give the reformed House of Lords the independence necessary to exercise clear restraint over Commons legislation which it did not conceive to be in the national interest. It would be a peculiarly British institution, but few would object on those grounds.

There are, however, some more fundamental objections. First, not all of those who would be

granted places in the legislature exercise real power in their own right. How far do we desire to give extra power to those who are already Government nominees? And how far do we really want to enhance and entrench the power of the already powerful by granting them extra power to thwart the will of the Commons majority of the day?

Apart from reform of the House of Lords, which has been a subject on the political agenda for most of the last century, the method of election to the House of Commons has again returned as a subject of controversy. It is natural that the long period of, first near one-party politics (in the 1930's), then wartime coalition, and then the tremendous resurgence of the two party system (which reached its peak in 1951 in terms of dominance at the polls) should have made arguments for proportional representation seem less pressing. But since 1951 the two main parties have achieved steadily less of the popular vote between them, though the remarkable decline of the Labour Party has outpaced that of the Conservatives. This fact, combined with fear that an extreme Leftist Government might achieve overall power on the basis of quite a small minority of the vote, has produced many new supporters for PR.

In the abstract, we can see many arguments for trying to maintain the two party system if possible. Obviously, the first past the post method facilitates this. Against lesser simple fairness which it implies, a first past the post system while there are two broad parties for which the electorate is willing to vote enables clear changes of Government to take place, diminishes back-stage non-democratic bargaining, and forces the two parties to be widely based, and therefore moderate in their approach. Nonetheless, if the electorate deserts the two party system (as it has shown signs in the last decade of doing) the first past the post system can become an engine of virtually random selection of governments. If three or more parties were to share the vote more or less equally, the number of seats allotted to each would depend entirely on where, geographically, the votes were cast. At this point, the first past the post system stops being a force for stability and becomes a powerful cause of extreme instability. This only failed to happen in the 1920's because the rise of the Labour Party was so swift, and because the Liberal Party was split into two. The same smooth transition might not happen again.

We believe that in such a situation the Conservative Party should play its usual role of

accommodating practices and institutions to changed reality, and should not in advance hook itself onto a dogmatic commitment to any particular system, whether proportional or not. This is why we have given some space to discussion of constitutional change here: it may be that the events of the next few years will make it clear that adjustments to our governing institutions are inevitable. Conservatives should be well prepared for this, and not fear it. Indeed, in electoral terms there are probably advantages in showing that we are aware of the worries which many people have about our constitution. Most of us do not think that the case for electoral change is yet proven: but events may prove it, and we must move quickly if they do.

In one other constitutional area there have been many signs of strain in recent years – relations between Westminster and devolved government. It seems to us, both in terms of proposals for devolution to Scotland, Wales and the English regions, and in terms of relations between existing local government and Westminster, that it would be premature to engage in radical reform at the periphery while there were major unsettled questions about the centre: demand for change in the former might in reality be a symptom of the need for reform of the latter. So we should concentrate first on the debate about reform of the central institutions of government.

Nonetheless, we are concerned at the growing constitutional conflict between existing local and national government. The fiction of an autonomous local government system largely subsidised by national government was just workable so long as both sides were aware of the

fiction, recognised that restraint and co-operation were essential to its operation, and restricted conflict to matters of political principle and philosophy rather than finance. That consensus is now in danger of breaking down and destroying the very real benefits that local administration can bring to its locality.

Given that the sticking point is finance, we believe that the benefits of local government outweigh the difficulties of seeking new ways of financing it. Furthermore, we believe that the problem in democratic terms goes deeper than the question of accountability for the rate support grant. We are concerned at the diminishing rate base which in an increasing number of authorities has meant in practise that locally raised finance is drawn from a minority of the electors, creating a situation where in electoral terms there is in practise no financial accountability at all.

We believe that both for the protection of local democracy and local administration the rating system must be reformed, the finance base broadened and the extent of national Government funding reduced. By removing certain areas of administration such as parts of the education service from the local budget and by transferring some of the tax burden from national to a new system of local taxation we believe that a result can be achieved whereby local government can continue within the strict bounds of genuine democratic accountability. Without such radical reform the growing conflict between local and national government, and the widening gulf between the myth and the reality in local finance, may well produce a breakdown of the system, with policy stalemated and ratepayers refusing to pay.

8 Foreign Affairs, Defence and Europe

On foreign affairs – including within that heading issues of nuclear deterrence, Europe, world development, our defence alliances, and trade, there is perhaps more to say than on any of the chapters headings we have chosen. That this chapter is the shortest derives from the fact that we see less need for new policy directions in the foreign and defence fields than in any other area of government activity. We are wholeheartedly committed to Europe, and to the restructuring of its budget to which, as genuine Europeans, the Conservative Government is at last able to apply effective influence. We support the Atlantic alliance and American leadership of it. In this brief section we therefore draw attention to two controversial areas only.

First, most of us are convinced by the Government's arguments in favour of Trident. We are all convinced by the argument that while Britain is part of NATO (as we all believe she should be) she faces a specific danger of pre-emptive attack which requires her, more urgently than any other European ally, to possess some independent nuclear second strike capability. We also understand the fears in Germany of leaving Europe with no nuclear capacity other than the somewhat dubious *force de frappe*, and also Germany's unwillingness to raise the issue of her own possession of nuclear weapons. Nonetheless all of us doubt whether Britain is likely to be able to persuade her people of the necessity or the wisdom of making the considerable expenditure on Trident without a parallel effort to show that we are at the same time lessening tension and working where possible towards arms control and arms limitation. Apparent insensitivity to the need to persuade people again in each generation of what is, *prima facie*, a paradox, namely that possessing these frightful weapons is less dangerous than not possessing them, could produce a very powerful backlash. The recent American style of rhetoric in this field cannot be said to have been helpful. In democracies as sophisticated as those of Western Europe it is only possible to persuade people to arm in peacetime by means of a constant demonstration of the imprac-

ticability of the alternative. Britain, with at present the most skilful Foreign Office team in the Alliance, should take the lead in initiatives aimed to demonstrate our willingness to negotiate wherever negotiation is possible.

A minority of us retain doubts not about the need for an independent deterrent if we can afford it, but about whether we can afford it if Trident is the only viable system, or about whether Trident is in fact the only viable system. The Government has done much better over discussion of Trident than its predecessor did over Chevaline, but the search to build a national consensus around the Trident programme (which most of us support) should continue.

Since the Brandt Report, issues of world development have climbed much higher up the political agenda. We are not starry-eyed about the chances of building a new international economic order in a world where it is apparently impossible to negotiate a rational herring fishery agreement in the North Sea. But we recognise the urgency of the problem for the rich and poor countries alike.

The Third World debt to the West now exceeds \$500 billion. Even an ostensibly viable nation like Brazil spends about one third of its export income servicing external debt. Arrears on Third World debt are estimated to have risen from \$1 billion to \$7 billion in the year 1980/81 alone. Recent events in Poland are a warning of the implications of a mass default by the debtor countries on the Western Banking system – not to mention, in the case of Poland, the loss of a trading partner with whom the West has a surplus of \$167 million.

The thirty or so poorest countries in the world – totally reliant on government aid – still provide a gruesome daily tally of deaths from starvation. Political parties would be ill-advised to underestimate the impact that a moral issue of this kind can have on the British public. The Conservative Party owes its historic place in British life to Disraeli's concept of raising the condition of the people within One Nation. But it was Disraeli himself who so completely misjudged the electoral impact of the Balkan

Atrocities: a hard nosed reaction to mass hunger could easily rebound in the same way. In fact, of course, we do not do at all badly in terms both of aid and of private investment in the Third World. Once again, however, our diplomatic skills, together with our immensely greater dependence than most countries on free flows of trade, should put us in the forefront of those arguing for reforms (both in and through the EEC, and elsewhere) aimed at stabilising the world's economic system and developing trade. This will mean much closer co-operation in the world economic institutions with the oil surplus countries; and most likely a writing off of considerable parts of Third World debt. It is difficult to feel that the present British Government has yet applied its mind very effectively, at least in public, to these issues. We hope that it will.

As with nuclear deterrence, the advantage of membership of the EEC is not a truth which is self-evident to the electorate. Inside the Community many jobs are securer. Fifty-seven percent of our trade is now taken by the Community or its associates, a change from the past of which many are not yet aware. With British MEP's, the Government must go on explaining the purposes and benefits of our

continuing membership. The British objective should be to help the EEC to evolve in a way that suits the United Kingdom and meets the world wide responsibilities the Community is now assuming. Some important steps can be taken now. Some of us believe that the British Presidency of the Council of Ministers provides an excellent opportunity for the United Kingdom to join the European Monetary System, especially since the pound is at a more appropriate level.

Political co-operation has provided a forum for this government's skills in foreign affairs; we back the Foreign Secretary's proposal for a small secretariat. Many other reforms are needed, both in the narrower British and the wider Community interest. The CAP is out of date and out of control. It is not just the detail; we want the lamb claw-back abolished, but the principle of unlimited intervention buying needs to be scrapped as well.

While the EEC exists in its present form, the government should continue to make it work. But we must also be ready to begin the next stages in European co-operation – not in a mood of cringing Eurosurrender, but because the Community will never succeed unless hard and fierce bargaining is matched by a willingness to drive the enterprise forward.

9 Conservatism Today

We are members of the Conservative Party not because we are particularly enamoured of one economic theory rather than another, or because we feel ourselves to be members of a club for the propagation of a particular defined set of political doctrines. We are Conservatives because we see the Conservative Party as an effective embodiment of a number of traditions in British political life which we value as being of the essence of what is good in British politics. The over-used code of 'One Nation' does refer, in short-hand, to a very real strand in British political thinking, which runs back much further than Disraeli. It defines the first job of government as being the maintenance of a national community from which no citizen is excluded. No class or section has the right to arrogate to itself the exclusive attention of government, let alone the right to claim the government as its own. It is that which separates us most clearly from parties based on sectional interests, whether middle class or working class. Simply in stark electoral terms, we are only elected when half our supporters come from the working class.

There can seldom have been a time when the maintenance of the national community needed more direct attention. A community must be based on – indeed is a social form of – order. Order is under threat at present from a variety of directions. It is under threat in the sense that trust in the Government's commitment to leading us through slump to a better world economically needs to be reasserted in more visible action. People simply will not accept the argument that any action will have self-defeating consequences now any more than they accepted it when Cobden used it against the Tories who were battling against child labour. Allegiance is a matter of faith which is deeper and more subtle than mere contractual relations – you deliver

the goods and I will obey – but any faith can be shaken in the end. That is why we urge a more activist approach to the economy and to industrial affairs. Order is under threat – at the margin, but nonetheless disturbingly – in the streets as we reap the harvest not only of failure to deal with the absorption of immigrants and with continuing severe pockets of poverty, but also of decades when order seemed so secure that many more intellectual energies were devoted to arguing that it was unnecessary than were spent on demonstrating its necessity, above all to intellectuals. (That is now likely to change.) No Conservative Party can waver for a moment in its duty to restore order in the simple sense; but our knowledge of history should be such that we know that Britain's order does not rest on truncheons.

Order is under threat from the decline of the most important institution of socialisation of all – the family – and that is why we suggest some ways of reversing the decline. Order can be threatened by the distorting effect of institutions which no longer work properly. Conservatives are not antiquarians who wish to bottle the constitution in formaldehyde. That is why we argue that adjustments may be necessary in our institutions of government, and that Conservatives should be seen to be in the forefront of the discussion. What other party understands the Constitution as we do?

At a time when economic growth has, at least temporarily, stopped, and the underlying strains within society cannot be disguised by growing wealth, a party which understands what binds society together – allegiance, order, the family, community, patriotism – understands the vital things. That party should be, and can be, a Conservative Party which is true to its traditions.