

FROM:

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HOUSE OF LORDS,
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16th October, 1981

The Right Honourable
The Prime Minister

My dear Margaret:

Unfortunately the pardonable desire of the Foreign and Commonwealth Office to send me to Washington to celebrate Britain's defeat at Yorktown in 1781 in the company of Presidents Reagan and Mitterrand is likely to prevent me attending at Cabinet to hear the discussion of Geoffrey's paper C(81)50 on Economic Policy and Public Spending. It is a powerful document and both the arguments and the supporting figures need to be widely publicised in a more popular form.

At the same time, lest I be wholly silent, I would like to put some thoughts on paper. These are not intended to question the general drift of the argument. But in politics success or failure often depends on marginal considerations, and I am concerned with some of these.

In the first place I am deeply concerned by the bitterness of some of our critics, and since we have such a powerful case, I am driven to suppose that there is to some extent a failure of advocacy in its presentation, and for this we ourselves must be to blame, at least in part.

In the second place, I believe there are factors which the paper tends to overlook. I begin with these, because they are the least important; but precisely because they are marginal, they may enable us, when they are taken into account, to make a disproportionately large contribution to our advocacy.

The paper quite rightly emphasises that we cannot go on borrowing more and more money with the consequent result that the service of debt becomes an ever increasing, and unrewarding, item in our expenditures.

It also emphasises quite rightly that, if we do the borrowing, it must have an adverse effect on the terms on which private firms can borrow in competition with us.

I was also glad to see an acknowledgement of the fact that, as we do our sums, the money saved on benefit must be treated as a credit, and to this must be added the increased receipts from revenue. But are there not other items which ought also to be

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considered? Take for instance the road programme which has been badly savaged in the interests of economy. It is possible to calculate the savings on otherwise wasted fuel of removing bottle necks, and, in the shape of expense avoided, the cost to the National Health Service and police of accidents which might be avoided by the elimination of black spots. There must, I believe, be a large number of capital projects not now being undertaken which will be arguably cost effective even with present interest rates. They might collectively add up to a sizeable sum.

There are also items which will have to be undertaken anyhow within the next few years. In addition to the credit items I have described, the inflationary cost of postponing them is surely also a factor which has to be taken into account. I hope we are never going to sacrifice real costs to apparent costs as they appear in annual books of account. This would be to confuse appearance with reality.

I now come to the question of advocacy. Our policy is constantly being described by entirely respectable persons as "deflationary", and to our economies the objectionable word "cuts" is being constantly applied. The reality appears to be somewhat different. Our expenditure is rising in real terms and in absolute terms with both taxation and borrowing going up in proportion, while our GDP is falling. We are trying desperately to control the increase and we are not even attempting to cut existing expenditures below what they are. The real situation is inflationary and it is going on being inflationary. What passes nowadays for deflation is not deflation, but a desperate effort to hold back to a tolerable level what is going in any event to be a rise in prices.

The second point I want to raise on advocacy is our apparent inability to get across the crucial extent to which restrictive practices and excessive wage settlements have brought about unemployment. As you know, I am far from advocating 'union bashing' either as a policy exercise or as an experiment in propaganda. On this particular issue, though not positively wet, I am at least not an advocate of drought. But it is really too bad when I see the Trade Unions pounding away at us (and of course in particular you) for hard heartedness in the face of unemployment without at least candidly admitting the extent to which their own wage demands and restrictive practices are directly responsible for the situation which they ask us to shed tears over. The contrast in productivity between us and our predecessors is at least mainly due to Luddism (the spiritual kind being worse than physical) on the part of their own leadership. When one comes to observe the relative rises in the wages of public servants and nationalised industries compared with private industries and small firms one is really made to squirm with indignation.

The last point I want to raise is a sin of omission on our part. I long for an appeal for a return to real self-sacrifice and service and patriotism after 35 years of things never being so good. You complained to me the other day that I was not making enough of my speeches. In the last two weeks alone I have spoken at Eastbourne (Ian Gow, whilst in Melbourne), Blackpool (Europe), and the Croydon by election, and I plan to speak internationally

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at Yorktown. It is not my fault or that of central office that very little has appeared in the press. The texts were written and circulated. I am driven to the conclusion that nothing that I say outside the field of law is nowadays news worthy. But if economics colleagues put a little bit about the need for those in work (particularly the secure work afforded by public employment) to make sacrifices for those who are not (unemployed, sick, pensioners, one parent families) and for Britain is it beyond hope that there would be some response from the media? Of course the ground will have to be prepared. We must be in a position to show that, for the first time since the post-war boom when anything was saleable at almost any price then conceivable, we are operating in a cold climate. But is it too much to hope that patriotism is only sleeping, and not finally extinct?

Parsimony leads me to send this in the first place only to you and Geoffrey. If you think it worth circulating more widely to other Cabinet colleagues by all means do.

yrs:
L.H.