Briefing Note

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LABOUR'S "PROGRAMME FOR RECOVERY"

In their newly published "Programme for Recovery", the Shadow Chancellor, Mr. Peter Shore, and his Treasury team, point the way forward to an inflationary future under Labour.

Their aim is the highly desirable one of bringing down the level of unemployment to one million over a five-year period. Some of their recommendations are, on the face of it, most attractive - for example, reducing VAT and getting rid of the National Insurance Surcharge. As Mr. Leon Brittan, Chief Secretary to the Treasury, has said:

> "Labour's recently published "Programme for Recovery" promises everyone everything. Low inflation. Higher output. Unemployment down to one million." (York, 28 November 1982).

The trouble is that the treatment as a whole would have such catastrophic side effects that it would inevitably have to be abandoned half way through.

At the heart of Labour's programme lies a thirty per cent devaluation of sterling, to be spread over two years. This would, it is argued, create jobs by discouraging imports to Britain and making our exports more competitive. That, if it could be taken on its own, would be unexceptionable. Labour would bring about this devaluation by a varied range of measures, also designed to create new jobs:

- a massive increase in public spending, by £5 billion in the first year, rising by stages to £18 billion after five years, financed by more government borrowing.
- a 4 per cent reduction in VAT.
- abolition of the National Insurance Surcharge, and cuts in the employer's National Insurance contribution.
- a cut of 4 per cent in interest rates (from their levels in early 1982).

Devaluation

Labour have of course devalued before. Indeed, Labour always devalue. It was thirty per cent in 1949 and fourteen per cent in 1967, while in 1976 it was a precipitous drop in sterling that brought the IMF to our rescue. As Mr. Shore admits, there is no gainsaying the inflationary pressures that would follow another devaluation. They have always been there in the past, and they would be there again next time. Each time, these forces quickly pushed up the level of prices and wages, so that once the short-term benefit of the devaluation had been eroded, the economy was back with rising unemployment again. Sir Harold Wilson claimed, in 1967, that devaluation would not affect the value of "the pound in your pocket". How wrong he was.

There is nothing inherently good in lower exchange rates. All they mean is that we have to export progressively more goods in order to pay for the same quantity of imports - and our foreign holidays cost more each time.

Meanwhile, who believes that Britain's thirty per cent devaluation would not hurt others behond our shores and force them to devalue too ? Certainly not Mr. Healey, who learnt a bit about the real world as Labour Chancellor of the Exchequer:

> "Faced with the difficulties of unilateral reflation some Socialists are tempted to seek salvation through trade restrictions or competitive devaluation. But such beggar-my-neighbour policies, if pursued on the scale required ... are more likely to lead to a trade and currency war than to insulate their sponsors from the recession in the outside world." (Paris, 12 November 1982).

'National Economic Assessment' - Another Social Contract ?

Inflation is Labour's Achilles heel. And their answer this time is just as unconvincing as it was in the past. They claim - against all the logic and all the evidence - that the inflationary pressures stoked up by devaluation and reflation can be held in check by voluntary restraint on incomes and by price control.

So, instead of the Declaration of Intent of 1964 and the Social Contract of 1974, we now have the National Economic Assessment "within which Government, workforce and management will determine annually how the increase in national income should be divided between profits, investment, public consumption and earnings." (Labour Party Press Release, 23 November 1982). The very words carry a tired echo of George Brown, of Jack Jones, of James Callaghan. Yet here they are, ready to be trotted once more round the ring.

In practice the National Economic Assessment would be no more (perhaps less) than the last Labour Government's Social Contract under another name. Then, earnings grew at 30 per cent and inflation touched 27 per cent. That was during the period which Mr. Foot has recently described as "specially successful". It was the period when, far from falling, the unemployment figures more than doubled, from 628,000 in February 1974 to 1,371,000 at the end of 1976. Britain could not afford another success like that. Labour's own document admits that without moderate pay rises, their whole programme would be "unsustainable" (page 54). Given that Labour have already promised to restore to the trade unions their immunities and privileges, it is difficult indeed to have much faith in the effectiveness of voluntary wage restraint when the inflationary merry-go-round starts up again.

The Conservative Approach

The Conservative approach is altogether different. Instead of mindlessly following the failed policies of the past, the Conservative Government has stuck to firm policies which have brought down inflation, lowered interest rates, and improved job prospects without the sanction of controls. Because of lower inflation and lower inflationary expectations, more moderate pay settlements are being achieved, sometimes covering several years. Productivity in manufacturing industry is up by 13 per cent since the end of 1980. Our labour costs are rising more slowly than they were. The solid foundations for recovery are being laid, without once more undermining confidence - and the fabric of society - by letting loose inflation.

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