

THE WESTWELL REPORT  
Stepping Stones to 1989

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STEPPING STONES TO 1986

A Programme of Action for Winning the Next Election  
and Governing Effectively Thereafter

"Failure is less frequently attributable to either insufficiency of means or impatience of labour than to a confused understanding of the thing actually to be done."

Ruskin

"Working hard to think clearly is the beginning of moral conduct."

Pascal

1. INTRODUCTION

1.1 This paper contains the results of extensive discussions at Westwell by a group of eight people (David Howell, Cecil Parkinson, Norman Lamont, Alan Walters, Douglas Hague, David Wolfson, Norman Strauss, John Hoskyns). The aim of the discussion was to survey all aspects of a new and broader Stepping Stones programme and to document the results, as the basis for a programme of action.

1.2 The Policy Unit's first Strategy Paper (12 June 1979) suggested that the Government's task would fall into two phases: first, a full 5-year Stabilisation phase, to create a stable base on which a second 5-year Rebuilding phase would be possible. A successful first 5 years could only get us to "the end of the beginning". This paper takes a 7-year view to the end of the first 5 years, through the Election itself to 1989.

1.3 It is often said that Oppositions do not win Elections; Governments lose them. It is certainly easier, these days, for Governments to lose Elections. Chronic inflation in

## 1. INTRODUCTION, cont.

the West, OPEC, world recession, record unemployment, the impact of newly-industrialised countries all combine to make Western Governments look at best powerless at worst incompetent.

1.4 At such times, Opposition Parties can win on political flair and rhetoric. They do not have to cost their programmes because they can insist on "waiting to see the books". The Government is judged by deeds; the Opposition Parties by words and promises.

1.5 For this Government, matters have been made more difficult by the emergence of the Alliance. Although the Alliance seems to have peaked too early, we took the view - and still take the view - that the Alliance could be a very real threat, but also - as the paper suggests - an opportunity.

1.6 The Government has important electoral advantages. It has at its disposal all the resources of Whitehall (provided it knows how to use them); it can decide the timing of the Election; it can focus its policies and economic management to some extent towards the Election date. There are also signs, at last, that this Government is beginning to be perceived as different in kind from its predecessors; a Government which, by developing a strategy aimed at the real problems, has come through the worst recession since the War with inflation falling, productivity rising, the PSBR on target, exports strong - and all without the incomes policies, panic reflations or exchange rate crises that pepper the Crossman/Barnett memoirs. All this is unprecedented in the post-War period.

1.7 We now have between 18 and 24 months in which to prepare to win a sweeping General Election victory with a clear

1. INTRODUCTION, cont.

mandate to everything that is judged necessary for the second half of our 10-year programme. We need the clearest and most comprehensive plans to ensure that this will happen. Of course, luck and circumstance will play a large part. But that strengthens rather than diminishes the case for careful preparation. It is precisely because the future is unknowable that thinking about it and preparing for it are necessary.

## 2. THE "STEPPING STONES" APPROACH

- 2.1 Conventionally, Governments tend to plan from Election to Election. This makes a long-term action programme extremely difficult. The horizon, for practical purposes, varies between 4 or 5 years, just after an Election, to a matter of a few weeks just before an Election. This is the reason for the well-recognised tendency of past Governments to start running out of steam at mid-term, as they complete their main legislation and start to think about the next Election. Mandarins and nationalised industry chairmen start to drag their feet in expectation of a change of Government. Back-benchers get apprehensive at the familiar mid-term slump in electoral popularity, but see no way to translate their anxiety into constructive action.
- 2.2 The right time for a Government to take stock and prepare its plans is at the mid-term. This is the point at which most of the work for the first term has been completed, and a new 7-year view is required, covering the run-up to the Election, the winning of the Election itself, the critical first half of the second term and the vision or goal to be realised at the end of that term. The original Stepping Stones exercise was our first rough-and-ready attempt to develop such a "critical path" programme. But after 3 years' hard pounding in office, such an approach is even more necessary, in order to give the Party fresh energy and direction.

## 2. THE "STEPPING STONES" APPROACH, cont,

2.3 To be strictly logical, we need first to decide where we want to get to by 1989, and then work backwards, step by step, to where we are now. However, a report written in that sequence could be confusing; and, in any case, we really have to work back from the long-term objective and work forward from where we are now in order to make sure that there is a continuous and practical route from "here" to "there". The Westwell group decided that there were six major Stepping Stones, each posing and requiring answers to various questions:

- (1) A vision for 1989. What do we want the country to look like, politically, economically, socially, by the end of our second term?
- (2) The economy: outlook and policy. What will the economic situation look like by the next Election, on the momentum of present policies? Are there any measures to changes still open to us to improve that outlook?
- (3) Winning the 1983/4 Election. What will the key Election issues be as far as the voter is concerned? What votint criteria must be established in his mind, to make sense of our measures and achievements in this Parliament? What myths have to be demolished? How long before the Election do voters begin to make up their minds?
- (4) The Election mandate and Manifesto. Which measures will require a specific mandate? Which pledges must be included in the Manifesto? Are there pledges which must be carefully avoided? Are there current commitments which must be undone in the Manifesto?

2. THE "STEPPING STONES" APPROACH, cont.

- (5) Main policy measures for 1984-6. What are the main measures the Government will need to implement during the period 1984-6 to move the country towards the 1989 vision?
- (6) Making it all happen. How is this broad strategy agreed, and by whom? Should there be a Stepping Stones Steering Committee? What human resources should do the work and how should they be organised? How should day-to-day communications be handled? In short, how do we organise ourselves to answer the questions raised in (1)-(5) above and then take action in the light of those answers.



STEPPING STONES TO 1989

1982

1983/4

1984-6

1989

A) WE WON'T GET TO "THERE" -

B) IF WE DON'T START FROM:

"HERE"

4. ECONOMIC OUTLOOK AND POLICY

- 4.2 Economic outlook
- 4.3 Policy questions
- 4.4 The future of MTFs
- 4.5 Exchange control risks

5. WINNING THE 1983/4 ELECTION

- 5.2 The Election "model"
- 5.3 Unemployment
- 5.4 Inflation
- 5.5 Taxes
- 5.6 How the Tories are perceived
- 5.7 The Alliance
- 5.8 Secondary issues
- 5.9 Election timing

6. MANDATE AND MANIFESTO

- 6.2 Conventional wisdom
- 6.3 Manifesto purpose
- 6.4 Pre-Manifestos?

7. THE MAIN POLICIES FOR 1984-6

- 7.3 A policy menu
- 7.4 Afterthoughts

3. VISION FOR 1989

8.1 Is the effort worthwhile?

8.2 The work to be done

8.3 No shortage of people

8.4 We will need a "command structure"

8.5 Staffing and organisation after the Election

8. MAKING IT HAPPEN

C) AND ORGANISE OURSELVES FOR

to achieve

for

with the right

## 2. THE "STEPPING STONES" APPROACH, cont.

2.4 Almost inevitably, the Westwell group worked forward from the present rather than backwards from the future. It spent most of its effort discussing economic outlook and policy; winning the 1983/4 Election; and making it all happen. The other Stepping Stones were only touched on in passing. They need to be properly addressed and I have developed them a little, in order to get that process started.

2.5 Once each of these Stepping Stones has been thought through, discussed and documented properly, we shall then have a reasonably clear and comprehensive statement of what we're trying to do, though it will be subject to many modifications. This will be, in effect, the "architect's drawing" without which it is impossible to decide who (in Central Office, Research Department, Whitehall Departments, CPRS, the back-benches, Centre for Policy Studies etc) should do what, and when. It will contain nothing new or magical; it will just attempt to put everything together so that work can begin.

2.6 The following Sections do not try to summarise and condense the arguments. That would be a mistake. For day-to-day decision-making, brevity on paper is admirable, but when larger and more complex matters are being considered, it is futile to try to summarise them as a simple list of conclusions. This is because the reasoning which led to those conclusions gets lost. Other people, with their own opinions, then look at those conclusions and (rightly or wrongly) disagree with them. The result is that agreement may never be reached on some important issues. The argument simply goes round and round in circles, with the Party unable to make up its mind to do one thing rather than another.

3. A VISION FOR 1989

- 3.1 The need for a long-term vision, a "policy destination" was recognised at Westwell, but only briefly discussed. There are two types of vision. First, there is the oratorical vision, normally painted by political leaders and easily recognisable by the public. It has to do with values. The oratorical vision can, however, disintegrate into empty platitudes unless Government policy appears to be leading towards its realisation. A second type of vision, the strategic vision, is also required. This is the vision which must describe the desired state of the nation and its institutions, to whose achievement all policies must be directed.
- 3.2 Opinion-formers and the electorate grow cynical because the oratorical vision is not backed up by the strategic. Without the strategic vision, and a programme of action for achieving it, the oratorical vision looks increasingly unconvincing, like a mirage which recedes as one walks towards it.
- 3.3 As we complete the task of our first 5-year term - the achievement of stability in place of permanent economic crisis - towards the task of the second term - building national recovery - we have to ask what it is we are trying to rebuild. Even the most successful first term of office will leave us with an electorate still brain-washed into believing that it has rights without obligations; increasing crime rates and the threat of riots; the breakdown of the family, parental authority and school discipline; illiteracy and innumeracy becoming almost the norm; a colossal burden of bureaucratic government, public services, nationalised industries whose employees have learnt how to extract more than their share of economic growth and no share at all of economic decline. In the words of the original Stepping Stones paper, we will still be a sick society, not a healthy one. Our achievements in the first 5 years are

3. A VISION FOR 1989, cont.

the essential precondition for curing the sickness - but no more than that.

3.4 We need a small group of people to sit down and work out what this strategic vision really means; what a stable, morally healthy, vigorous, adaptable, innovative, self-confident country would look like. This group will need more than practising politicians, policy advisers or economists. It needs the contributions of people with a broader historical perspective and the time to think. It requires a rethinking of applied Conservative philosophy with the 21st Century (now only 18 years away) in mind.

3.5 Here, with no attempt at structure or weighting, are some of the sorts of questions that group might consider:

- How do we move from the "jam today" to the "jam tomorrow" mentality? How can a society remain viable, whose individual members insist on jam today, while the state is expected to produce jam tomorrow?

Will the achievement of a stable currency bring unexpected problems as well as benefits? Once inflation is effectively zero, can nominal wage rates fall to reflect supply and demand?

Can a modern democracy afford trade unions as well as a welfare state? Is there a role for trade unions at all? Should we be seeking to make them obsolete, helping them to wither away?

- What is the answer to the stranglehold exerted by small groups of workers in key industries? Is that answer to be found in legal, organisational or behavioural terms?

*Caveats  
nominal wage rates may rise to reflect the real growth in productivity  
even when prices are constant in a steady state growth (say 3%pa)*

3. A VISION FOR 1989, cont,

- Will the concept of "work" be different in the future? What will people aspire to, work for? What will the material aspects of a "successful life" be?
- If we agree that the "Third World War" *tape skipped?*
- What "unthinkable" objectives for the NHS, education, British Rail might be achievable if only we think about them early enough? Or must we simply extrapolate their present customer value and cost into the next century?
- Should we consider a constitutional limitation on the percentage of GDP spent by the state?
- What sort of Civil Service do we require in the 1990s? How do we outflank the familiar Catch-22 - that an unreformed Civil Service is always capable of defeating any plans for reform?

There are no doubt more profound and important questions that would emerge from discussion by the right people.

3.6 I am not suggesting some massive Hudson Institute type of exercise or some mechanistic national plan (in which unrealistic economic performance was demanded from a system whose structure and culture were not to be changed). I am simply suggesting that some thinking should be done about where a country of 56 million people should be heading in the longer term, if we are to have much chance of thinking straight in the short. Selected individuals could be invited to make contributions, whether individually or working in committee, as soon

3. A VISION FOR 1989, cont,

as possible. Quite apart from the real job to be done in 1984-9, evidence of hard thinking now, about the 1989 vision, would itself expose, to our electoral advantage, the shallowness and irresponsibility of our political opponents.

- 3.7 Having raised some of the questions about where we want to get to by 1989, we now come back to the present situation (as at December 1981) and start to work forward.

4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION

4.1 Economic outlook and policy was, naturally enough, the starting point of our Westwell agenda and we spent about a third of the available time discussing it. Many of the points in this Section had come out before the Westwell weekend, in discussions within the Policy Unit, with Douglas Hague, Alan Walters, Terry Burns. All the recommendations have since been fed into the Budget thinking by Alan Walters. They are included here for completeness.

2 Economic outlook

4.2.1 The US economy accounts for about one-third of the world economy today. A recession there would push world trade down and damage UK export prospects. There is nothing we can do to affect this or to affect US interest rates. However, Reagan has mid-term elections in 1982 and may therefore be pushed in a direction which is more favourable to the UK economy. *more amenable anxious to prevent interest rates soaring and may therefore reduce federal spending programmes.*

4.2.2 The Westwell group felt more optimistic about inflation than the Treasury, because it attached more weight to the narrower monetary measures, which have been growing slowly.

4.2.3 Unemployment cannot be reduced by any macro-economic measures which would not bring the problem back again in a more severe form. Efforts should therefore be concentrated on freeing the real economy so that it can adapt more quickly to the MTFs, and educating the public about the unemployment problem.

4.2.4 The 1982-3 PSBR should pose less of a problem, because revenues will be buoyant as a result of the "unthinkable" 1981 Budget, and delayed revenues from the Civil Service strike.

#### 4. THE ECONOMY; OUTLOOK AND POLICY TO THE ELECTION, cont.

4.2.5

Productivity and living standards. There were divided views on this. On one side, there is the view that, if the present rise in productivity continues as inflation falls, there would be real increases in disposable income. The other view is that we may already have had all the productivity gains we are likely to have for the next year or two. Graphs from NEDO suggest that productivity, since the early Seventies, has increased during periods when output fell, but has not gained much when output recovered. On this view, therefore, there would be no further increase between now and the Election. We should therefore be careful not to over-sell the productivity gains, since we have more to lose from raising hopes and then disappointing them, than from under-selling. The good news will speak for itself.

4.2.6

There is no shortage of demand. Ninety percent of CBI members thought demand was deficient, but what they really meant was demand for their products at current prices. It is the distribution of demand which has changed, and is changing, rapidly as a result of high energy prices and the impact of NICs. The economy is going through the biggest period of structural change since the 1930s. We could not talk sensibly of "inadequate demand", when we have rising money wages and falling output. An increase in demand would slow down the rate of reduction of real wages. An expansion might then well lead to rising unemployment later.

*which were  
"considered  
profitable"*

4.3

Economic policy questions

4.3.1

Let the pound and interest rates fall. This was one of the most urgent conclusions reached at Westwell in December 1981. We saw the MTFs as probably the single most important innovation in bringing coherence to monetary and fiscal policy. But fM3 should now be downgraded. There is now general acceptance of the



4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION, cont.

Niehans/Walters/Pepper thesis that monetary policy was somewhat tight (and thus out of balance with fiscal policy) in 1979-80. It would not be credible to set too much public store by £M3 now, because everyone knows that we have paid little or no attention to it for more than a year. Presentationally, no-one would really believe us if we said we had £M3 targets.

4.3.2 The danger now was that monetary policy was becoming too tight again and we could go back into a new depression with higher than necessary unemployment, lower than necessary output. We must not keep interest rates high, thus putting pressure on financial markets over the next 6 months. The banks would be in deficit anyway so that any squeeze would be magnified.

*This has almost gone now!*

4.3.3 We were very concerned that the Bank, resisting unrestricted indexed gilts and favouring a high pound for "look the dollar in the face" reasons, would snuff out the recovery before it had started. This rejection of an exchange rate regime is emphatically not the same thing as advocating "salvation through devaluation". An exchange rate regime would be very dangerous for Britain. Movements in the exchange rate are like movements in share prices: they reflect many factors, primarily the monetary and fiscal policies of our trading partners, political factors such as Poland etc and many other variables which should have no effect on our monetary policy. But if our monetary policy is to be determined by a fixed exchange rate, these events would be slavishly translated into monetary movements.

*In particular, we should not allow Britain to be pulled down by an American ship.*

4.3.4 Over-valuation of the currency is, from all monetary history in other countries, as disastrous as long-run monetary laxity. <sup>and progressive devaluation</sup> The pursuit of a high exchange rate and the pegging of a currency as an over-valued level has caused major economic disasters (1925<sup>6</sup> in the UK, 1931<sup>1933</sup> in the United States and Germany, 1946/7 in the UK).

4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION, cont.

4.3.5

We should restore Rooker-Wise and, so far as the MTFs allows, do "super-Rooker-Wise" even to the extent of doubling it, thus recovering all the ground lost in the 1981 Budget. This should be the central purpose of an "employment Budget" - desirable for both political and economic reasons. It affects millions of voters at the bottom of the pile, while at the same time attacking the "why work?" problem. (Some people, like Patrick Minford, have suggested, since Westwell, that further increases in Child Benefit would also help to cure the "why work?" problem, but this has not been properly discussed.)

4.3.6

Britain should not join the EMS. If we joined the EMS, we would almost certainly have to move back to exchange control and credit rationing. The evidence was that EMS caused instability, not stability. ~~The more rigid the exchange rate, the more volatile interest rates.~~ It would be rather like Bretton Woods, with nominal rates of interest having to be the same throughout the EMS, meaning that those countries which finally achieved low inflation would have high real rates of interest - exactly the opposite of what was ~~intended~~. In any case, the French would probably break up the EMS. The Bundesbank reported in its October bulletin last year that in one of its major objectives, the convergence of the national economies, the EMS had completely failed. Since 1979, they had diverged very considerably. What would have happened if Britain had joined in 1979? It is likely that we would have gone much the same way as the Irish economy.

is needed for  
"Convergence"  
of inflation  
rates - the  
would ruin  
the EMS.

4.3.7

Selective aid for recovery. The group favoured general stimulus, but only if the MTFs allowed it. We preferred cutting interest rates rather than VAT. It was difficult to know what types of activity would respond to a selective stimulus, which ones would create more employment rather than higher prices. Construction was relatively un-unionised

#### 4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION, cont.

and many approved plans had been put back on the shelf early in 1981, when interest rates did not fall as low as had been expected. There were also some areas where large Government orders could create new markets. The whole economy now looked to the MOD to provide the funding of new technology. But big capital projects of the sort often referred to in pleas for Government help, special financing assistance etc, represented only 5% of exports. Most exports were price-sensitive, and if companies cut their prices or the exchange rate dropped, they would get the orders. There was therefore little enthusiasm for selective stimulus with the possible exception of the construction industry.

#### 4.4 The future of MTFS

4.4.1 As already stated, we believe that the philosophy of MTFS has been correct and the cornerstone of monetary and fiscal policy. It should be recast, giving greater weight to the narrow monetary aggregates. The essence must remain that we control the monetary aggregates and allow prices, including interest rates and the exchange rate, to adjust freely.

4.4.2 Journalists and academics who opposed the MTFS at its inception did not understand the purpose of a rolling strategy of this kind, because they had never had experience of making any sort of plan and trying to achieve it. They criticised the Government's "inflexibility" while at the same time ridiculing the MTFS whenever failure to achieve targets meant that those targets had to be re-based. (The ~~managerial~~ naivety of some critics was shown by their assumption that the actual numbers in Year 4 of such a plan should be set at the outset and never changed thereafter; subsequent change showing that the whole concept of such a plan had failed!)

*negotiated?  
or postponed?*

#### 4. THE ECONOMY; OUTLOOK AND POLICY TO THE ELECTION, cont.

##### 4.4.3

The MTFFS is an essential part of the process of transition from high inflation to near-zero inflation and inflationary expectations. As such, it should be institutionalised and rolled forward year by year. Its much-criticised "rigidity" is its precise purpose. Only when those operating in the real economy understand that the fiscal and monetary framework will not be relaxed to accommodate irrational behaviour, will that behaviour itself change. But this means that we shall have to move much faster on further trade union reform, the abolition of Wages Councils, the introduction of extended Young Workers' Schemes, selective aid to small businesses, and a total strategy for reduction of public spending and the direction of the nationalised industries. If we are not able to make rapid strides in these areas, the collision between MTFFS and the real economy will produce unnecessarily high unemployment and unnecessarily low output.

##### 4.4.4

Sticking with the MTFFS means that there can be no traditional pre-Election give-away Budget in 1983 or 1984. This should be no problem, since the evidence suggests that the electorate are no longer fooled by such Budgets. Any sudden relaxing of fiscal or monetary stance in the last year would undermine our most important electoral asset - credibility and consistency. We should aim to look particularly steady over the last 9 months.

##### 4.5

##### Exchange controls in the run-up to the Election

##### 4.5.1

It is very possible that, as the Election approaches and the polls oscillate, people will anticipate a mixture of exchange controls and inflationary financing, as would be expected from an alternative Government.

#### 4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION, cont.

4.5.2 If that happens, there are two options. First, we can allow the pound to depreciate until the run stops. Second, we can attempt to fight the depreciation by intervention in the markets, up to and including exchange controls, or increasing domestic interest rates.

4.5.3 An intervention policy is not feasible. Our reserves would be quickly exhausted. Exchange controls, from experience, would not be effective. Yet the threat of them would induce an even greater outflow. The best policy would therefore be to allow the pound to depreciate. It would warn the electorate what they can expect from the alternative Government. The effect on the price level would be transitory. If we get back into power, the pound will rise again and we will reap a corresponding price decrease. To make this policy effective, it should be spelt out very clearly. We should explain that we are not going to impose exchange controls (this cannot remove the fear that an alternative Government would do so, but at least will not accelerate the outflow). We should similarly explain the meaning of a run on the pound - the expectation in the rest of the world that only another Conservative Government would ensure that we did not return to accelerating inflation.

4.5.4 The Bank of England would respond by increasing monetary contraction through higher interest rates. This would be quite wrong. It would be quickly reflected in a decline in activity, but the rise in interest rates would have to be very large in order to stem the outflow.

4.5.5 The introduction, in the Budget, of non-restricted indexed gilts will help to insure against capital outflows. The flight of capital, frightened by

4. THE ECONOMY: OUTLOOK AND POLICY TO THE ELECTION, cont.

*partly*  
the possibility of a profligate alternative Government,  
would then be ~~be~~ into non-restricted indexed gilts, instead  
of other currencies.

5. WINNING THE 1983/4 ELECTION

5.1 This was the second main topic on the Westwell agenda and was discussed at length.

5.2 The General Election "model"

5.2.1 Conventional wisdom says that Elections are won or lost on the Government's performance, and the electorate's expectations, on three primary issues: pay; prices; jobs. Everything else - even emotive issues like law and order - are of secondary importance on polling day. The Westwell group believed that voters make up their mind how to vote between 6 and 12 months before the Election, but we had no hard evidence to support this.

5.2.2 Central Office does regular opinion research to find out which electoral issues carry the greatest weight. This research tends to bear out the conventional wisdom. Since the last Election, the percentage of respondents regarding one or other of these primary issues as "the most important problem facing Britain" has been as follows:

Unemployment	between	%	and	%
Inflation	between	%	and	%
Tax cuts	between	%	and	%

5.2.3 Secondary issues have, by contrast, fallen in the range % to %. These include: trade unions, law and order, race relations, housing, defence, health education, Europe.

5.2.4 The unprecedented problem of unemployment. There is no possibility that unemployment can come down to "normal" levels by the Election; indeed, it is forecast to stay around 3 million. In any case, the Government could not jeopardise its long-term strategy to produce a short-term reduction in unemployment. The Government has been successfully portrayed by Labour as deliberately

## 5. WINNING THE 1983/4 ELECTION, cont.

using unemployment as an instrument of policy. Thus, although public opinion may become "habituated" to high levels of unemployment, those levels provide an opportunity for activists to encourage rioting and disorder; and there is a risk that the present Government and the Prime Minister herself become so closely associated with the problem, in the public mind, that they are rejected (rather as Giscard was in 1981 or Churchill in 1945) simply because people have had enough of a particular regime and are looking for something different and possibly more agreeable. This risk is higher, with the emergence of the Alliance.

### 5.2.5

It therefore seems likely that the three primary issues of "pay, prices, jobs" will be joined by a fourth - the general perception of the Prime Minister, the Conservative Party, and this Government. While this will not be as important as the three primary issues, it will almost certainly be more important than secondary Election issues like law and order. (We stress here that, for the purposes of this discussion, what matters is what the public thinks is important, not what we think is important.)

### 5.2.6

The rest of this Section therefore discusses our approach to four primary issues:

- Unemployment
- Inflation
- Net pay and taxes
- How the Tories are perceived.

It then examines the SDP-Liberal Alliance and, more briefly, the secondary Election issues.

### 5.2.7

Please note that this Section is not intended as speech material. It wastes no time listing our achievements in office for two reasons: first, there is no point in



5. WINNING THE 1983/4 ELECTION, cont.

rehearsing our own rhetoric until we are absolutely clear what is going on in the heads of the voters, so that we know what our rhetoric is to be about; secondly, when we talk about "our achievements" we tend to be talking not really about results, but about measures taken. But measures take- are of no interest to the electorate if, on the primary Election issues, our performance disappoints.

5.3 Unemployment

5.3.1 Unemployment is at present regarded by about % of respondents as the most important problem facing the country (compared with % for the next issue, inflation). Parents questioned in recent by-elections have been worried about the prospects for their own children who will not be entering the labour market for another 5 or 6 years. This was a major concern at Croydon and Crosby.

5.3.2 Although we know that curing inflation is an essential precondition for curing unemployment, it is almost certainly an inadequate political response to the public's fears. In fact it may even make us look a bit simple-minded. "If it is simply a matter of curing inflation, which has been your primary objective since the Election, why haven't you brought down inflation faster, so that unemployment is now falling?"

5.3.3 We believe that there is less of a "why work?" problem and more of a "why hire?" problem. Recent study shows that unemployment benefit rose from about 25% to 65% of average take-home pay of those at work, between 1951 and 1971. A 1980 survey showed that 5-10% of people *on the dole* were better off unemployed than working. But there was a more fundamental consequence. Real wages had to be pushed up sufficiently high to exceed benefits, in order to bring people into work. Real wages were therefore higher than benefits, and productivity lower. The effect was like a national minimum wage, in which jobs

5. WINNING THE 1983/4 ELECTION, cont.

at the bottom end of the pay scale did not appear, because the benefit system discouraged people from taking them. (We were not sure how this would be affected when benefits were taxed, after 1982.)

*But since those out of work for a year we not to be taxed, this will clearly have no effect on the long term unemployed*

5.3.4 Four ways to increase employment, especially at the bottom end. First, we should at the very least do a full Rooker-Wise in the Budget, and preferably more, up to and including double Rooker-Wise, if PSBR constraints permit (as already suggested in Section 4 above). Second, we should extend Walters-type Young Workers' Schemes, the first version of which is now going rather well. Third, Wages Councils should be cut back or abolished as quickly as possible, not least to ensure that they do not enforce pay scales which are in conflict with Walters-type schemes. Fourth, we should redefine unemployment so that only those actively seeking work should be classified as unemployed. This change in definition in the 1930s had a major effect. As we understand it, the interpretation of the rules is already being tightened.

5.3.5 Early retirement. Another possibility, though at present not regarded as cost-effective, would be to reduce the retiring age from 65 to 60. In theory, between 1 and 1½ million people might retire if this was done. We could perhaps give a higher rate of unemployment benefit to those over 60 who agreed to leave the register. Of course, not all of them would be replaced by younger workers, but the firm concerned would benefit to the full extent of their pay in that case. The attraction of this measure, expensive though it would be in gross terms, is that it would have a certain effect, directly proportionate to the Exchequer cost; and probably other less predictable benefits in bringing more younger people into work, off the dole, off the streets etc. If it is judged to be electorally popular, it could be held back for the Manifesto, as a measure to be introduced in 1984-6. The question

5. WINNING THE 1983/4 ELECTION, cont.

is whether we can afford to wait that long with unemployment at present levels. It may be that we have already missed the last opportunity to do this, since such a measure would begin to look like a cosmetic vote-buyer by 1983 (unless we had decided to go for a May 1984 Election and were prepared to say so before the 1983 Budget. See Section 5. on page below).

5.3.6 We thought that cutting NIS was less effective as a measure for tackling the unemployment problem (despite it being a "tax on jobs") because it was a relatively blunt instrument in economic terms and was politically less attractive than taking people out of the tax net. We would prefer to spend available revenues on the latter.

5.3.7 The Tories should dominate the debate on unemployment. We must go on the offensive, not the defensive, about unemployment. First, we must explain it to the point where people are becoming bored with the issue. Second, we must reduce people's expectations of early improvement, demonstrating that it is a long-term structural - indeed global - problem affecting all the Western industrialised countries. Third, we must show that we understand the problem and are doing more about it than our opponents who are merely trying to make political capital out of it.

5.3.8 We must explain the main components of the unemployment problem:

(a) Demography. There is at the moment a significant increase in the 16-24 year age group, which would fall off after the middle 1980s.

5. WINNING THE 1983/4 ELECTION, cont.

- (b) Structural change. There is increasing competition with NICs, especially in less sophisticated products. In the 1960s, low material prices meant that real wages could increase to some extent at the expense of commodity-producing countries. In the 1970s this reversed. Real wages in the UK had actually been squeezed by higher incomes in commodity-producing countries. There had been a substantial increase in real capital investment in the late 1970s in the UK, especially in plant and machinery in the private sector. This had almost certainly produced a transitional increase in unemployment.
- (c) A shake-out of 30 years of overmanning. Half of West Germany's labour force (about the same size as ours) could now produce almost the whole of Britain's GDP. There had been huge overmanning in the private sector, only reduced in the past by transfers to the public sector. Excessive trade union power, restrictive practices, labour market rigidities and weak management had all been accommodated on the back of rapid growth in world trade and monetary and fiscal accommodation by British Governments.
- (d) Combined recession and inflation. Western economies had probably scarcely adjusted, as yet, to the 1973 OPEC price rises, let alone the 1979 increases. This combined with the unavoidable side effects of monetary deceleration since 1979, in order to cure inflation, as the present Government's number one objective.
- (e) New technology. The impact of IT - a potential job-creator on all past experience of new technology - was likely to cause transitional unemployment for some time, in view of all the other problems listed above, and the rigidity of Britain's labour market.

5.3.9

We should disaggregate the unemployment figures, sorting out grey, black, part-time. We should look at what the average family does with its income and the sources of that income. We should divide this up between parents and children and others who live in the household. In most families with children there were at least two sources of income.

5. WINNING THE 1983/4 ELECTION, cont.

5.3.10 We should contrast unemployment today and in the Thirties, when the unemployed represented a far larger percentage of a much smaller work force. Since then, the working population has increased by and the economy - in spite of, rather than because of any Government policies - has created another new and far better paid jobs.

5.3.11 Once people begin to see the full scale of the unemployment problem (we might get some of the popular dailies to run some special features on it) it should be easier to accelerate the introduction of "politically sensitive" measures, eg on Wages Councils, de-indexing of benefits, further reductions in trade union power, especially as these are coupled with balancing measures like Rooker-Wise, and greater employee involvement (see Section page below).

5.3.12 As regards forecasts of future unemployment, we should constantly stress the difficulty of making economic predictions of any kind. We should point to all the underlying factors- the extent to which unemployment depended on inflation, nationalised industry prices, local authority rates, pay demands, artificial pay rates for apprentices and young workers, refusal to change and thus declining competitiveness.

5.3.13 Trade union leaders can be relied on to forecast very high levels of unemployment, virtually for ever. (For example, an ASTMS official said a few months ago: "Three million is the lowest unemployment figure you're going to have this decade". He said it was a mircale it was so low.) Provided we have displayed to the public the real complexity of the subject, we can ask the unions for their detailed and practical proposals for solving it, other than by massive reflation or direction of labour (or, in the case of SDP, some immensely complicated and distorting incomes policy).

## 5. WINNING THE 1983/4 ELECTION, cont,

5.3.14

One way of demonstrating that unemployment is an international problem could be for the Government to convene an international conference in London to discuss it. This would be much more effective than speeches or articles, because there would be pictures on television screens, as employment ministers from the EEC countries arrived in London for the conference, which could be opened by the Prime Minister. Unemployment would thus be seen as a world-wide problem and not the deliberate act of a wicked Tory Government.

5.3.15

Riots are the greatest danger. Even if public opinion becomes accustomed to 3 million unemployed, and this is seen as a world problem rather than the consequences of Tory rule, riots in the summer of 1983, no doubt orchestrated by Left-wing activists, would renew the feeling that the Government was using unemployment as an instrument of policy. Riots would suggest general breakdown, the Government's inability to cope, its failure on law and order - the one area where it is meant to score high marks. This is much more dangerous than a Winter of Discontent (whether in 1982/3 or 1983/4) which could well be helpful to us. The danger of riots in the summer of 1983 is an argument for thinking seriously about delaying the Election to spring 1984. (See Section , page below.)

5.4

### Inflation

5.4.1

This is currently seen as the most important issue facing the country by % of opinion research respondents. It is one issue on which we have to deliver results. We have rightly insisted, through thick and thin, that inflation remains the priority target and is the key to achieving all other objectives, especially the reduction of unemployment

## 5. WINNING THE 1983/4 ELECTION, cont,

(though we doubt whether the public are yet persuaded of this). The Treasury forecast suggests an inflation rate of % over the 12 months of calendar year 1983. The Westwell group is rather more optimistic. One way or another, however, the rate must be low (5-7%) and falling.

- 5.4.2 Whether or not we succeed in reinstating inflation as the first priority in the electorate's mind, we should consider direct measures to make absolutely certain that it is low and falling as we approach the Election. It is difficult to imagine our winning the Election with inflation higher than when we came in, or lower but once again rising.
- 5.4.3 It would be wrong to try to combat inflation further by having an over-valued pound. This slows the recovery of output (the most attractive way of making real and money GDP coincide - which is what ending inflation means) and, by requiring interest rates to be higher than they otherwise would be, feeds directly through to the RPI, especially via mortgage interest and business investment and confidence.
- 5.4.4 It would be better to consider less than full valorisation of some duties, or even no valorisation at all, and possibly (though less attractive because of our original Manifesto commitments to switch from direct to indirect taxation) a cut in VAT. But neither measure should be taken in the coming Budget because it would have dropped out of the 12-month RPI series by April 1983. Thus, we could end up with the opposite of what we wanted: a perceived continuing fall in inflation over the 12 months April 1982-March 1983, from a slightly lower RPI base set in March 1982 Budget; and then a levelling-off, or, if we were unlucky, even a slight increase in the rate of inflation during the 6 months April-September 1983. So any changes to duties or VAT should wait for the 1983 Budget, by

5. WINNING THE 1983/4 ELECTION, cont,

which time we shall have a clearer view of whether they are in fact necessary at all.

5.5 Income tax and corporation tax

5.5.1 Direct tax cuts are seen as the most important issue facing the country by % of opinion research respondents. The Westwell group did not have a unanimous view on the importance of cuts in income tax.

5.2 The argument in favour of income tax cuts goes as follows. Intelligent back-benchers now favour aiding industry rather than cutting taxes. That is misguided. Industry's profits are already recovering with the benefits of the shake-out. Direct tax cuts appeal to individual voters. It is true that opinion polls suggest that people now attach less importance to direct tax cuts than they did. This is because unemployment is seen as the key problem. But that does not mean that they do not want tax cuts. If we could still do something about tax cuts, it would increase our credibility and show that we have done the things we were elected to do. Indeed, if we are criticised for making tax cuts, that may well awaken the electorate to the fact that tax cuts are desirable. Also, if unemployment (to which, even at today's very high levels, people are probably slowly becoming accustomed) starts to fall and inflation continues to come down well into single figures by the Election, tax cuts could look increasingly important. But direct taxes must be cut before the Election. They are not an issue for the Election itself, although of course the Manifesto would show that the Tory Party continues to aim for lower income taxes in the medium to long term.



5. WINNING THE 1983/4 ELECTION, cont.

5.5.3 The argument against income tax cuts goes as follows.

A very small reduction in income tax costs a great deal of money. One per cent off the standard rate costs *about 1 billion*. No-one feels much better off, or suddenly motivated by entrepreneurial drive as a result of such a change. Income tax has gone up a penny and down a penny in many previous Budgets. It will be assumed that it can as easily go up by a penny depending on the arithmetic pressures of some future Budget. It could therefore be seen quite cynically as a gesture towards Manifesto pledges. It may be loudly applauded by the small minority of unswerving Tory voters, but will make no conversions among floating voters and may even alienate them.

5.5.4 By contrast, Rooker-Wise has a much clearer purpose, more perceived fairness and a more recognisable

objective - "to take more people out of the tax net than were in it when we came to power". That objective can be set up quite unambiguously and almost certainly achieved if we want it. It is the marginal rate of tax which determines the readiness to work at the bottom end and the readiness to take risks and innovate, move house etc, at the top end.

5.5.5 There is no great difficulty in defending our inability to fulfil Manifesto pledges on income tax in view of a doubling of oil prices, the worst recession and the highest unemployment since the Thirties. Everything we do must be seen in the context of the unemployment problem, until unemployment is no longer at the top of the voters' agenda. Cutting income tax is not relevant to curing unemployment, while other fiscal measures are.

5.5.6 We are most unlikely in the 1982, 1983 or even 1984 Budget to have much to give away. If we are not clear on our own priorities, those Budgets, instead of having a definite economic impact and carrying a clear political

5. WINNING THE 1983/4 ELECTION, cont.

message, will be frittered away in dozens of penny packets, none of them big enough to make any difference or communicate, to the electorate, the Government's purpose.

5.5.7

The first thing, therefore, is to decide where income tax cuts rank in our order of priorities (for the purpose of immediate decision-making; of course the ranking may change as circumstances change). If we conclude that income tax cuts are not the most effective economic and political use of any fiscal "slack", then we should take care to keep expectations low, perhaps gradually establishing in the public's mind the "tax net" objectives which can be easily understood and can then be seen to have been achieved.

## 5. WINNING THE 1983/4 ELECTION, cont.

### 5.6 How the Tories are perceived

5.6.1 It is the Conservative Government, not the SDP-Liberal Alliance, which must "break the mould" - by being re-elected despite being the first Government since the War to put long-term problem-solving before short-term electoral popularity. The Government's position on all the different policy issues will tend to merge into a general perception of the Party and the Government. Just as a thousand pinpricks will gradually demolish the image of the Alliance, so the Tory image - tough, but, after all, perhaps not a bad lot - will be built up out of many small actions.

5.6.2 It was suggested that most people really know how they're going to vote - barring very dramatic and unexpected events - 6 or even 12 months before the Election. They may say all sorts of things to opinion pollsters during that period, but their minds are really made up on the question of how they will vote, rather than the hypothetical pollster's question of how they might vote. If this is true (and it might be worth Central Office checking past opinion polls against Election results) there is not much time in which to destroy the myths built up by Labour, since 1979, which are now so well-established that they are probably more helpful to the Alliance. For example:

- (1) The Tory Government is deliberately causing unemployment, in order to crush the trade unions and depress wages.
- (2) The Government is deliberately refusing to permit public sector capital investment for doctrinal reasons (rather than because the money is pre-empted by over-powerful unions in wages).
- (3) The Government is irresponsibly "wasting North Sea oil" whose revenues could be used for electrifying railways and other such public sector investment.

5. WINNING THE 1983/4 ELECTION, cont.

- (4) The Government is "giving away priceless natural assets at knock-down prices to their friends in the City".

5.6.3 We already have "tracking" opinion research on the traditional "pay, prices, jobs" issues. We have suggested to Central Office some rather more exploratory research to find out what floating voters are looking for on this fourth - and we suspect increasingly important - issue of "what sort of Party?". We would guess (and it can be little more than a guess at this stage, though the SDP image and popularity lends it some credence) that people are looking for three characteristics in a political party/Government:

- Fair-minded, "caring", uniting rather than dividing the country.
- Forward-looking, "progressive", not class-based.
- Competent, determined, honest.

These are vague and subjective attributes but, we'd guess, very important.

5.6.4 None of these things will be as important as past performance or future hopes on "pay, prices, jobs", but if the public is confused or sceptical on those, it may give added weight to the "what sort of Party?" issue. Of the three characteristics suggested above, we have tended to pay most attention to the last, perhaps underestimated the second, and (understandably, with such hearts-on-sleeves political opponents) we have seen the first as rather nauseating; part of the post-War British consensus, which has really meant simply avoiding difficult issues and sweeping fundamental disagreements under the carpet. We think it is perfectly possible to improve the perception of the Party on all three

5. WINNING THE 1983/4 ELECTION, cont.

characteristics without compromising our basic position or indulging in gimmickry.

5.6.5 Fair-minded, "caring", uniting rather than dividing

5.6.5.1 Fair-minded. One danger is that we are perceived as carrying out a petty-minded vendetta against everyone employed in central and local government, public services and nationalised industries. This could set some 5 million people against us. We should therefore seek opportunities (not necessarily easy to find) to demonstrate that, where we are being "tough" to any of these groups, it is in the interests of fairness to all. The "vendetta against the public sector" is directly imputed to the Prime Minister, because it is against her that all Opposition propaganda is really directed. (It's always "the Thatcher Government".) We may need more, and well-publicised, visits by her to different parts of the public sector, starting with those that are least likely to produce demonstrations. We may also need some opinion research on attitudes of those employed in the public sector, which we can then track.

5.6.5.2 "Caring". If (see Section above) we decide to abandon any idea of de-indexing pensions, we should repeat the pledge to index emphatically. Let us at least get all the political advantage we can from that very big commitment: 9 million pensioners produced 42% of Tory votes in the last Election. There must also be areas where relatively small expenditures could be really helpful and would demonstrate that this Government does care. For example:

- (a) Might it be possible to offer free telephone installation to pensioners?
- (b) The death grant, now under consideration, is another example where we might save a relatively small

5. WINNING THE 1983/4 ELECTION, cont.

amount of public expenditure, while the Opposition parties will use whatever changes we make as evidence of our meanness and class divisiveness. We should weigh very carefully the money we might save against our standing with 9 million voters.

- (c) We might offer free off-peak travel to those who have been unemployed for more than 6 months, to allow them to go for job interviews (which can be an expensive burden on the dole). The avoidable cost must be small and the psychological value high.\*
- (d) We have already mentioned (see 4.3.5, page 15 above) low earners, the poverty trap and the objective of removing people from the tax net. All this shows that we are "caring" and at the same time economically sensible. We should start in the 1982 Budget, so that there is maximum amount of time for the penny to drop.
- (e) We should reduce the VAT burden on charities\*\*, perhaps even eliminate it, give more financial assistance to voluntary organisations. This is all "caring", consistent with the Tory philosophy and, again, should be done in the 1982 Budget so that the penny can drop. And the message behind it should be that we can afford to take some "caring" measures this time, because we had the guts to make the Budget tough enough last time.

No one measure will convince people that the Tories care. Only a steady trickle of imaginative measures, many of them, over time, will bring about that change of view.

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\* The Budget Community Work Scheme is an imaginative step of this kind.

\*\* Other Budget measures were in fact introduced, to the same end.

## 5. WINNING THE 1983/4 ELECTION, cont.

5.6.5.3 Uniting, not dividing. All the above measures will tend towards unity and social cohesion. But the most important example of unity is of course unity in the Government and within the Cabinet. When we talk about "individual liberty" we should explain it as broadly as possible and in a more sympathetic way. Everyone can be a self-starting entrepreneur. There is a majority of people with decent values, modest abilities and not much self-confidence or self-assertion. In the past, trade unions have appealed to these people because, in the last analysis, they would rather be safe than successful in an uncertain world. It is easy for those born with material advantages or exceptional ability to lose sight of this. In opinion research, the Party is regularly seen by a majority of respondents as "out of touch with ordinary people". The free enterprise system only works because it gently exploits the few with exceptional ability, for the benefit of the many without it. That is how the system works. In the past, trade unions were seen as protectors from exploitation by ruthless capitalists. Now it is the power of the unions that crushes the individual. It should not be difficult, therefore, to present the Conservative Party as "the best trade union to join". Yes, this may sound paternalistic, but there is nothing wrong with that. Objections to the paternalistic strand in Conservative thinking stem from the fact that that strand happens to have been associated with economic illiteracy and the desire to repeat the economic errors of the past. Paternalism - for the benefit of those who really need it - can go hand-in-hand with fiscal and monetary discipline and a bracing and rewarding atmosphere for the "high achievers". This is all part of the vision for 1989 - the sort of country we want to be. It must be spelt out in a way that everyone, from tycoon to park-keeper, can identify with.

5. WINNING THE 1983/4 ELECTION, cont.

5.6.6 Forward-looking, "progressive", not class-based

5.6.6.1 Worker participation and industrial democracy. This is a subject on which colleagues are divided. On one side there is a knee-jerk reaction to something which sounds reminiscent either of muddled social democracy or a renaissance of Bullock. On the other, there is the view that British management is still appallingly bad at handling and communicating with its work force and that this plays into the hands of trade union militants who then isolate the work force from the management. This view argues that, despite all the doctrinal objections to coercion, the Government should seriously consider making some form of workers' council obligatory. The arrangements could be fairly loosely defined. For the progressively-managed company, they would pose no problem at all; for the old-fashioned company, they could not make matters worse than they already are. Politically, it would demonstrate that the Government was not anti-worker; but that the Government was anti-union wherever the activities of the unions were themselves anti-worker in their effect. The further we have to go in reducing trade union power and breaking labour market rigidities (eg Wages Councils) the further we should go, to counterbalance, in areas like workers' councils, encouragement of employee share schemes, etc. However, we should be quite clear that all the trade unions - whether moderate or Left-wing in complexion - will resist workers' councils unless they are operated by trade unions, for trade union members only. Our attitude to workers' councils therefore depends on where we are trying to get to (ie the "Vision for 1989"). If, when we have thought it through, we reach the conclusion that we should be trying to hasten the withering away of the whole trade union movement - much as it has been withering away in the United States - then we may decide that workers' councils, however fiercely resisted by the unions, are a powerful device for either weakening them (like our measures on the closed shop) or even gently phasing them out of the history books.



## 5. WINNING THE 1983/4 ELECTION, cont.

5.6.6.2 Industrial policy, information technology etc. We may decide that Government can and should do more to accelerate economic recovery (beyond providing a firm fiscal and monetary framework, supply side measures etc). If that happens, then positive measures like those already in hand on information technology will certainly help to give the Party and the Government a positive and constructive image, to take over from its present image (right for the times) of "cuts", austerity and financial rectitude. There may be scope for imaginative policies linking information technology with education and re-education (on Open University, Open Tech, the BBC computer project etc). But we would have to see all this as part of the route to realisation of the 1989 vision, not as short-term cosmetics for electoral purposes.

5.6.6.3 A general sense of national direction. We may be so jumpy about follies like the "National Plan", so nervous of corporatism or dirigism, that we underestimate the psychological need people have for a feeling that the country and the present Government really know where they're going over the long term. The more comprehensive and coherent the picture we can paint of the long-term route to recovery, the more satisfactorily we can answer the question in people's minds about the stresses and strains of the past 3 years - "Has all the agony been worthwhile?" This is where the "strategic vision" must match the "oratorical vision". It is also the surest way to demonstrate the irrelevance and shallowness of Labour and the Alliance. As the months go by, we must be seen as a Government which differs totally from its predecessors: first in our commitment to move the whole centre ground back to the Right where it matches ordinary people's values and convictions; and second, the breadth and depth of our thinking, and the long-range vision that we bring to that task.

## 5. WINNING THE 1983/4 ELECTION, cont.

### 5.6.7 Competence, determination, honesty

- 5.6.7.1 Determination and honesty are already our strongest assets and should strengthen as signs of recovery begin to show. In the meantime, we think that Ministers should continue to be cautious when talking of economic recovery. "Good news" speeches are discounted because of their political source. Good news is only believed when it comes through the media. There is, in any case, more to lose by forecasting good news and getting it wrong than there is by forecasting bad news and getting it right (or wrong!). Ministers' - and especially the Prime Minister's - can be quickly eroded if false hopes are raised. Speeches announcing economic recovery also run the risk of being inconsistent with our appeal for two full terms to accomplish the gigantic task of turning around a major economy.
- 5.6.7.2 Competence is most clearly demonstrated during "crisis management", typically public sector strikes. These crises are opportunities to accelerate change, educate public opinion and enhance Government credibility. Each successfully managed public sector strike (British Steel, Civil Service, British Leyland and, in due course, British Rail and NCB) is itself an important stepping stone. Almost certainly, we cannot win them all without fighting some if not most of these battles. A Government that cannot win such battles is demonstrating that it cannot really solve the British problem. At present management (in the public services and nationalised industries) has insufficient gamesmanship skill for this task. Government is involved whether it wants it or not. Plenty of time will be needed, in advance of such crises, to ensure that all the Cabinet colleagues understand and back whatever strategy is adopted for winning them, otherwise the conventional wisdom, "It's all too difficult, so give them the money" will prevail. But it is already clear that at one end of the spectrum the

5. WINNING THE 1983/4 ELECTION, cont.

Government has nothing to win (eg electrical power engineers) while at the other, it has nothing to lose (eg British Airways: why not do the unthinkable and let it fold?) Who on earth needs a loss-making flag-carrier with the sky permanently crammed with half empty jets?).

5.6.7.3 We should try to get across to the public the "learning curve" of any new Government. If we frankly admit our or two of our mistakes in the first 12-18 months, our credibility will be enhanced as people recognise that we have learnt how to do the job. Does the electorate really want a new Government, with almost every Cabinet Minister doing a job he has never done before and the whole team out of practice after 5 years in Opposition? Do people want the country to go back to square one with the new Government learning and making all the familiar mistakes, at the country's expense? We were not sure how to get across this subtle but important point and it needs further thought. But the "weathered look" must not be outweighed by signs of fatigue. Hence the importance of the Government pacing itself and demonstrating, through the Stepping Stones exercise this paper suggests, that it is full of intellectual vigour and all set for its second term.

5. WINNING THE 1983/4 ELECTION, cont.

5.7 The Social Democrat-Liberal Alliance ("The Alliance")

5.7.1 We have no option but to take the Alliance seriously

5.7.1.1 We are to some extent still "flying blind". We have not yet completed exploratory opinion research to establish the appeal of the Alliance and then to track opinion. The polls will in any case probably go all over the place as public opinion tries to make up its mind what the Alliance really amounts to.

5.7.1.2 The conventional view is that the emergence of the Alliance almost certainly reduces the Tories' electoral chances. The Alliance is likely to force Labour more quickly to moderate, at least in public, and to sort out or patch up its internal problems. If the Alliance is successful, we may have a 30-30-30 split of a poll, perhaps letting in a Labour Government or leading to an Alliance-Tory coalition. That possibility needs to be thought through. The Alliance's negotiating position, after such an Election result, is not necessarily strong; it is most unlikely the Alliance leadership would do a deal with labour. The question of coalition could itself split an Alliance which had done well in the Election.

5.7.1.3 While there is no sign that the Alliance would be strategically radical (ie prepared to think about the unthinkable on the really big long-term problems - as this paper proposes) it could upstage us in tactical radicalism, as for example on further measures for trade union reform. Certainly, it will work hard to present a public face which is caring, radical, young, new etc, and will therefore keep bouncing back in the polls to threaten our chances.

## 5. WINNING THE 1983/4 ELECTION, cont.

### 5.7.1.4 We prefer to stand this conventional wisdom on its head.

We should treat the Alliance not as a threat but as an opportunity. The very fact that the Alliance is a Party with great appeal for opinion-formers and the media means that its emergence is itself an "event". We have always argued that only events cause important debates to happen. The public don't think about the pros and cons of British Steel, the Civil Service, British Rail, until a clearly visible crisis of some kind makes it item number one on the 9 o'clock news. They they start to listen, learn, think. That is our chance.

5.7.1.5 Britain's post-War disease has stemmed largely from Governments' actions: treating the public like children;funking every tough decision; fudging difficult issues; in short, demonstrating "compassionate" cowardly incompetence. If there was no Alliance, an electorate tired of the tough policies of the present Government would be driven back, faute de mieux, to a Labour Party which succeeded in camouflaging the Left-wing influence and returning to this hallowed post-War Government tradition. But the Alliance not only embodies that tradition but wheels it out onto centre-stage under the spotlight of public debate. If we can demolish what the Alliance stands for, then we can simultaneously demolish what the moderate wing of the Labour Party stands for. The Alliance should therefore be helpful to us in moving the common ground back to the Right.

5.7.1.6 This process of using the Alliance as the opportunity to expose, once and for all, the muddled post-War consensus, is also an opportunity to clear the minds of our own doubting su-porters and faint-hearted back-benchers. A rigorous dissection of the Alliance makes it a less attractive Party to move to.

5. WINNING THE 1983/4 ELECTION, cont.

5.7.1.7 The Alliance may be helpful to us in another way.

It may act as a bridge by which disenchanted Labour supporters can do the unthinkable and switch to the Conservatives.. Such voters might be unable to switch in one step. But they can switch from Labour to the Alliance and then, as they become disillusioned with the Alliance, the final step to supporting the Conservatives may no longer look impossible.

5.7.1.8 This Section is a first attempt, from the armchair, to answer three questions:

- What is the Alliance's appeal?
- How do we combat the Alliance?
- How do we ensure a clear Party line on the Alliance?

5.7.2 What is the Alliance's appeal?

5.7.2.1 The stable Conservative and Labour votes of 35 years ago have dwindled in size and changed in composition. A growing proportion of the electorate sees neither Tories nor Labour as having the answers to the country's problems. As Alfred Sherman has pointed out, the electorate votes against the results of continuing Socialist policies, whether implemented by Labour or Conservative Governments. Because we now, at last, have a Government attempting to halt and reverse this drift to the Left, it is seen as "extremist". All change is, by definition, extreme compared with continuation of the status quo.

5.7.2.2 This floating constituency now accepts the argument that it is the system that is the cause of all our problems, not the policies pursued by successive Governments. They

5. WINNING THE 1983/4 ELECTION, cont.

believe that if the system can be changed, the extremes of Left or Right will be impossible. There will then be room in the middle for something better.

5.7.2.3 That something turns out to be the Alliance which perfectly satisfies a clear "market need". People need something they can believe in, which gives them hope. People are not responding to the substance of the Alliance but simply to the hope it appears to offer.

5.7.2.4 The very word "Alliance" is psychologically important, because it suggests the end of adversarial politics. The rise of the Alliance is thus largely a social phenomenon: a non-political activity for people who have never been politically active. They see the possibility of a non-political politics.

5.7.2.5 The general tone and style of the Alliance epitomises the British value system - moderate, friendly, tolerant, unpassionate, ready to do everything by halves.

5.7.2.6 One of its great attractions, especially for the politically naive, is its consultative process. This process will almost certainly prove very disillusioning as Alliance members discover how impossible it is to find any party which precisely matches their personal portfolios of opinions.

5.7.2.7 The Alliance shows us, very usefully, what many voters yearn for. The Alliance has the tone, but not yet the content. The Tories, by contrast, have the content but not yet the correct tone. Finding the tone to match the content will be easier for the Tories than it will be for the Alliance to develop and agree the content to match their tone.

## 5. WINNING THE 1983/4 ELECTION, cont.

### 5.7.3 How do we combat the Alliance?

5.7.3.1 The instinctive response of Conservative Ministers to the Alliance is to attack the individuals who lead it. This seems sensible enough: look at their deeds in office, not their words today; remember how they voted for Michael Foot's trade union legislation; if the Alliance leaders had taken the same view on trade union reform in the early 1970s as they take today, Britain's industrial situation could be very different.

5.7.3.2 All this is true and sounds sensible to politicians used to confronting each other in the House. But it could be (opinion research may shed further light) quite misconceived as far as public opinion is concerned. Public opinion may well say that politicians who can admit that their past views have been mistaken, and have the courage to leave the comparative safety (even that of the Labour Party) for the high risk of starting something completely new, should be commended. They may see the predictable personal attack as simply an example of the old style adversarial politics of which they are heartily sick. When they hear Tory Ministers attacking in this way, the response may well simply be "Well, they would, wouldn't they?"

5.7.3.3 Loyal Tory supporters will enjoy hearing their leaders vilify the Alliance's leaders. But potential converts are much more likely to respond to calm and objective analysis of what the Alliance proposes. If we seem to attack them in the old Left-Right way, we make their case ("adversarial politics"). To attack them for being Socialists could backfire. If they are Socialists, why have they left the Labour Party? To criticise them for being past members of Labour Governments could similarly



5. WINNING THE 1983/4 ELECTION, cont.

backfire. After all, most of the present Cabinet were members of an earlier Tory Administration, whose policies they now reject.

- 5.7.3.4 The Alliance leaders may find that their position on many policy matters is so similar to the Tories that they will seek deliberately to differentiate themselves. They will try to "out-radical" the Conservatives, but this is likely to be tactical rather than strategic radicalism. Our long-term thinking and planning (Sections 3 and 7 of this paper) should help us to develop genuinely radical policies and plans, of much greater substance and credibility. As we said in the original Stepping Stones report, "product differentiation" is essential.
- 5.7.3.5 Rather than question the Alliance on its policies, we should fill the vacuum for them, by imputing policies to them. This puts them onto the defensive and is more likely to show up their internal differences, since some will favour the imputed policies while others will reject them. In particular, this approach will show up the many divisions between the more hard-headed Alliance leaders who have been in political office before, and their more starry-eyed "anti-politics" grass-roots members. (For example, there is considerable potential disagreement about the treatment of tax relief on mortgage interest, where SDP's predominantly middle-class membership are decidedly non-radical.)
- 5.7.3.6 It may be possible to make the Alliance's warm and friendly approach come to seem stifling, overwhelming, patronising, even insulting to the intelligence of the voter. The process of altering people's feelings towards the warm and cosy aspect of the Alliance would itself be the best way of altering our own image. (Tony Jay's point?)

## 5. WINNING THE 1983/4 ELECTION, cont.

5.7.3.7 We should not be frightened of making the argument about policy complicated. The conventional wisdom is that the politician's task is to make things very simple and then repeat them until people understand them. We believe the conventional wisdom may be wrong. We have to fight on our record, which is why the electoral task, in these difficult times, is so much harder for Government than for Opposition. If we make Government's task sound simple, then many people will assume that, because we have not solved all the problems in 4½ years, we must be incompetent. On the other hand, the Government must not sound apologetic or defensive. The best way, therefore, is to be ready, when required, to talk over the public's head. That is the only way to make people realise that the problems we are grappling with are huge in scale, extraordinarily complex, and thus only soluble over many years. This is why we have to involve powerful minds and considerable expertise in painting the strategic vision for 1989 and developing the policy measures for 1984-86. Our motto should be:

"Unless we make the Election complex, we will lose it to the simpletons".

5.7.3.8 All this is particularly important because Roy Jenkins is not an intellectual lightweight and has had considerable experience of high office. If the Alliance begins to produce credible (and credibly complex!) policies, Jenkins could well try to make us look simple-minded, especially if we fall into the trap of trying to explain the country's problems and our policies "in simple terms that everyone can understand". Few ordinary voters follow the logic of Enoch Powell's speeches; and yet, in spite of - or because of - their rigour and density, they recognise that there is a formidable intelligence at work, and so they tend to accept his conclusions without necessarily following the reasoning. He speaks, as he thinks, with great clarity; but he makes no concessions to the man in the street.

5. WINNING THE 1983/4 ELECTION, cont.

5.7.3.9 Complexity gives us insurance. We know there are strict limits to what Government can do in the economic sphere. The public still tend to think that the Government has, in its gift, full employment and prosperity. Demonstrating that problems and policies are complicated can reduce the risk of Government being blamed for everything. For example, when the oil price doubled, we were not able to use the fact to explain the problem, because that would instantly be seen as an excuse for our own difficulties. If we or the previous Government had shown how sensitive all forecasts and thus Manifesto pledges were to external changes of that kind before those changes occurred, the difficulties of our first 18 months would have been better understood.

5.7.3.10 We will need to do some "political education", perhaps through PPBs, to remind people that there are issues over which decent citizens profoundly and passionately disagree with each other. That is what politics is about. The Alliance cannot conjure up a world which contains no such disagreements.

5.7.3.11 Only in our tone of voice and style of communications, should we emulate the Alliance. The aim of our communications is not to make loyal Tories "vote harder". It is to won converts from those who might vote for us, but who will not listen to our arguments because they dislike our collective personality and tone. Nothing could be more fatal than the implicit or explicit view that "those who are not for us are against us". Some of those who are now against us must be potentially for us. If we are to win the Election, then people who are now saying they would not vote Conservative must somehow change their minds. The question is - do the things we say and do make it easier or harder for them to change their minds?

5. WINNING THE 1983/4 ELECTION, cont.

5.7.3.12 Politicians don't realise just how tired people are of politics-as-usual. For example, when a politician (eg Keith Joseph) admits error and even shows respect for some of the beliefs of his opponents, this is seen as outside the norms of political behaviour. It is thus attacked or ridiculed by other politicians and political commentators. In contrast, it is surprising how many ordinary people say, in conversation, "If only politicians would admit sometimes that they've been wrong". If such disarming (the mot juste) frankness was occasionally shown by other Tory Ministers, over a period, those norms would themselves start to shift and those Ministers would win increased attention and credibility.

5.7.3.13 To be non-adversarial is not the same as being party to a woolly-minded consensus. It is part of adult and honest behaviour, showing that you listen to your opponents, that you understand the views of those with whom you are in disagreement. There is then a chance that they will in turn listen to you. It was this promise that Alliance politicians were different, that they were not the old-style politicians, that was the secret of their appeal. The moment they started to revert to form and to disagree amongst themselves, their popularity began to wane.

5.7.3.14 There is no single "pinprick" - whether attacking the credibility of individuals or exposing the weaknesses of policy - that can bring the Alliance down. They did not appear overnight, but as a result of a complex cumulative process. Similarly, it will be a large array of interacting factors - what we say and do, external accidents, their own internal conflicts - that will gradually cut them down to size. Much depends on what happens when their popularity first starts to wane. How quickly will the bandwagon effect go into reverse?

## 5. WINNING THE 1983/4 ELECTION, cont.

### 5.7.4. How do we ensure a clear Party line on the Alliance?

- 5.7.4.1 So far, our approach to the Alliance has been largely instinctive, but it threatens to become confused. Ministers have described the Alliance leaders as Socialists, while nervous back-benchers run around asking how we can be as like the Alliance as possible, in order to win the Centre ground. If we are not careful, our messages will be contradictory. One voice of the Tories will say that the Alliance are a rabble with no policies; another that they are clearly the old Labour Party with Socialist policies; another that they are a resurrection of the discredited consensus of the Fifties and Sixties. We must decide which it is to be.
- 5.7.4.2 The difficulty is that a "line" is not normally put out by Central Office. Colleagues interpret events in their own ways. MPs may follow the line of a successful Ministerial speech, once it has been picked up and amplified by the media. Thus a shared line may eventually emerge, but it may still be the wrong line. It is not possible to impose a line by edict, but the more people who are involved in particular aspects of the Stepping Stones work, the clearer the line will become, and the more effectively key speakers can put it across.
- 5.7.4.3 We think that it is right for the Prime Minister to keep out of direct comment on the Alliance until nearer the Election, by which time our line on the Alliance and their electoral prospects will be clearer. Their speeches and interviews should meanwhile show, by contrast, the shallowness and incoherence of the Alliance's thinking.
- 5.7.4.4 It is essential that this line is worked out and agreed by a steering group (see Section 8 below). Central

## 5. WINNING THE 1983/4 ELECTION, cont.

Office has already launched the project "Impact '80s" which will provide the vehicle for getting this line to the grass roots and getting feedback of constituency information about the Alliance. Activity of this kind is important for its own sake, too, to counter any feelings of despondency or defeatism in the Party.

- 5.7.4.5 The reader may think that we are making a meal of "getting the line right". But consider. A company like Unilever takes an enormous amount of trouble working out how to counter the threat of a competitive consumer product. Such a comparison immediately produces the comment "You can't sell politics like soap powder". Yet the blunt truth is that Unilever does more thinking about how to present its washing powders than we do about how to present our Party and its policies. Can that be right?

### 5.8 Secondary issues

- 5.8.1 There are several secondary issues which weigh heavily with Conservative Party members, but which are well down the priority list according to most opinion research. Briefly, these are as follows:

- (a) Trade unions. The prestige and political influence of the unions is in decline and has probably been so since before the Winter of Discontent. They are still an enormous barrier to economic recovery and it is likely (see Section 3 and 7 of this paper) that we need to have radical further measures, going at least as far and preferably beyond anything the Alliance is likely to propose, for our second term. If possible, such measures should be sooner rather than later, so that we do not appear simply to be following the Alliance's lead. This will also put

5. WINNING THE 1983/4 ELECTION, cont.

the unions in a difficult position if they try to create another Winter of Discontent, because that will simply make our case for us. There will be further major confrontations with public sector unions, which it is essential the Government win and are seen to win. Such confrontations could very quickly move the trade unions to the top of the electorate's consciousness as it has done before. But at present, the percentage of opinion research respondents putting trade unions at the top of their list of important problems facing the country is about c %.

- (b) Law and order. We have always made much of the law and order issue in Opposition, but have found it harder to act accordingly when in office. Despite the Conservatives' concern with law and order, it is fairly low in relevance according to opinion research (varying between % and % over the last 3 years). However, on that specific issue, all the evidence is as usual that public opinion is far to the Right of the Tory Party. This was particularly true as regards public reactions to the riots of summer 1981. As well as firm action to uphold the law and back the police, we need hard-headed research into the origins of the present rise in crime.
- (c) Race relations and immigration. This has been regarded as "the most important problem" by only % to % of opinion research respondents. This may change following the disclosure of crime and colour statistics by the Metropolitan Police.

5. WINNING THE 1983/4 ELECTION, cont.

- (d) Housing, rates and rents. These have been rated "most important problem" by between 1% and 5% of opinion research respondents over the last 3 years.
- (e) Nuclear weapons, disarmament. These have not figured on opinion research statistics at all.
- (f) Schools and education. These are seen as the "most important problem" by a consistent 1% of respondents.
- (g) Health. This does not rate a mention in opinion research. Despite the rapid growth of private medicine, and private health insurance (with some trade unions in the lead) specific opinion research on the NHS normally rates it as a good thing. (probably because most respondents have little or no direct experience of it).

8.2

The welfare state poses special problems to Governments. The public appears to have no strong feelings about housing, health or education, despite the big policy problems they pose to Government. They are not key Election issues and probably will not become so, until or unless they reach the point of catastrophic collapse, as a result of Government failure to plan competently for the long-term - by which time it may be too late. The Civil Service, local authorities, public services generally, nationalised industries (and especially the trade union element in all these) are widely unpopular but are probably not rated as key Election issues in opinion research because it is assumed that no Government can do much to change them.



5. WINNING THE 1983/4 ELECTION, cont.

5.9 Election timing

5.9.1 We noted earlier the view that the electorate makes up its mind how it is going to vote many months before the Election. Thus an autumn 1983 Election is closer than we think, if this theory is correct. There are in fact some good reasons for thinking seriously about a May 1984 Election:

- (a) We would be another 6 or 7 months distant from the trough of the recession, with a greater chance that unemployment would be starting to fall.
- (b) We would have had two more Budgets, completing a series of three Budgets showing steady improvement in our fortunes, following the tough medicine of 1981.
- (c) The Election would be just after a Budget so that, provided there was something to give away, it would come through in the pay packet from the month of April and would not have been taken for granted and forgotten (the obverse is that annual valorisation of duties would slow the fall of the RPI). This benefit to the pay packet would come through whether by further raising of thresholds or reduction of standard income tax rate.
- (d) Taking the full 5-year term would be consistent with the Thatcher no-nonsense approach. "We said we need two full terms, and that is what we are going to get." Five years for the penny to drop that what matters is strategy and patience, rather than gimmicks.

5. WINNING THE 1983/4 ELECTION, cont.

(e) The biggest threat to the Government's image would be riots in the summer. Such riots would be fading from memory (as they are now) by the spring.

5.9.2 The main difficulty about a spring Election is that we would be in the middle of the pay round. We might also just be emerging from a Winter of Discontent, but that could be helpful, provided we are prepared for it. It would give more time for the Boundary Commission to report but that again may be a two-edged weapon, depending on the state of the Alliance.

5.9.3 There could be considerable psychological impact if the Prime Minister were to say that we were going to run the full 5-year term long before she had to do so. There is little to lose from this (the other parties would all be gearing themselves up for the autumn of 1983, whatever we say) and it could again reinforce the Prime Minister's strongest asset - straight talking, no "games", seriousness of purpose. The conventional wisdom is that a Prime Minister should "keep all options open". But this particular option may not amount to much, on closer inspection.

## 6. THE ELECTION MANDATE AND THE MANIFESTO

6.1 We could not, of course, discuss the detailed contents of the Manifesto at Westwell, because that would require not only detailed agreement on the key Election issues (on which we did spend a lot of time) but also on the Vision for 1989 and the Main Policy Measures for 1984-6, which were not properly discussed at Westwell. However, we did talk about the purpose and shape of the Manifesto, and this Section records the discussion.

### 6.2 The Conventional Wisdom

6.2.1 The conventional wisdom about Manifestos is rather like that about PPBs: "No-one reads the Manifesto, but we have to have one. Better keep it simple, not too specific, watch out for rash promises". We think the Manifesto should be fairly specific in key areas. The conventional wisdom in the past has probably reflected the fact that Governments were very uncertain about what they were really trying to do and how they were going to do it. This is particularly the case for a Party in office, which may be nervous about being too specific on what it will do in a second term, because that invites the challenge "Then why haven't you done it in the first term?" This problem disappears when a Party in office has thought deeply about what it proposes to do and is quite clear in its own mind about the things it has done, and why it has done them. We are certainly clear on the latter; and this paper argues for the greatest possible clarity on the former.

### 6.3 What must the Manifesto achieve?

6.3.1 The Manifesto itself only appears at the start of the Election campaign, so it can have little effect on

## 6. THE ELECTION MANDATE AND THE MANIFESTO, cont.

voting behaviour. Its main purpose is to ensure that Ministers, back-benchers, Party members (and, later on, officials) understand the mandate for which the Party is asking the electorate.

6.3.2 The Manifesto should give a brief account of our stewardship and outline the Vision for 1989 and the Main Policies for 1984-6. It might group particular policies under headings which are relevant to the individual voter's future. In that way (this is elementary selling technique) what the Party says and offers responds directly to the individual's own needs - about his future, his family and children's future, his home, his desire for an orderly society. The vision must sharply differentiate the Tory Party from its rivals, especially on those popular issues where we know that public opinion is basically Conservative. The voter must be reassured that we are aiming for the destination he would prefer. He is quite realistic enough to know that the journey may not be simple or effortless. But the destination does matter.

6.3.3 It goes without saying (almost) that the Manifesto should pledge certain measures which are definitely attractive to the voter (as with council house sales); some measures which curb the powers of groups that are unpopular (eg local government, trade unions); some measures to help groups for whom the voter feels sympathy (eg pensioners).

6.3.4 The Manifesto must avoid pledges which would prove difficult or impossible to fulfil. It may even have to "de-commit" on some pledges which have long-term public spending implications. It is not possible to say what such pledges might be until the work on Main Policy Measures for 1984-6 has been done.

## 6. THE ELECTION MANDATE AND THE MANIFESTO, cont.

- 6.3.5 Similarly, the Manifesto must avoid commitments to time-consuming and difficult legislation (however popular the topic with the Party faithful) if there are more important things to do. The choice always is between popular policies and popular results.
- 6.3.6 The Manifesto is a "free sample" of Tory thinking and communication. It has therefore got to be distinctive in quality and integrity. With Whitehall resources available, it can probably be more specific and detailed than the 1979 Manifesto.
- 6.3.7 Perhaps most important of all, the Manifesto must set all its proposals, and its account of the Government's stewardship, in a 10-year context, clearly identifying "Phase I", that is the first 5 years, the hardest part of the journey, in which the economic rot had to be stopped before it was too late; and "Phase II" - the long process of rebuilding the country's health: economic, moral, social, political.
- 6.4 Should there be "pre-Manifestos"?
- 6.4.1 When we were in Opposition, "The Right Approach" and "The Right Approach to the Economy" had considerable impact. There is certainly a case for producing something much sooner, in order to influence opinion-formers over a period of 1-2 years leading up to the Election. The strongest criticism from Tory supporters has been that we have failed to get across to the public why we have done what we have done. A pre-Manifesto could do that and at

## 6. THE ELECTION MANDATE AND THE MANIFESTO, cont.

the same time begin to spell out what we are going to do and why we are going to do it.

6.4.2 The plans to produce a "mid-term report" from Central Office have been delayed because it is felt that the report does not say enough about the future and that "mid-term" suggests that we only expect one term. Instead, Central Office is considering producing, as a sort of "spring offensive", four documents at six-weekly intervals, issued at the weekends in order to get maximum Sunday and Monday press. For example, (1) overseas and defence; (2) industrial policy; (3) social policy; (4) economic policy - though this would of course be handled in the Budget speech. This becomes a relaunching of our existing policies. The Prime Minister would introduce the series with the sort of preamble drafted by Norman Fowler for the original mid-term report. The booklets could later be put together as a small book. We might aim to produce something more substantial, drawing on these policy booklets, towards the end of this year. But such a document would have to be the result of - and show clear evidence of - really hard thinking about objectives and policy (that is, Sections 3 and 7 of this paper). It might also draw on contributions from people like Robert Blake and Max Beloff to ensure that the Vision for 1989 does not degenerate into a political pot-boiler. If such a document is to have any effect on opinion-formers, it must address the reader as an adult, examining the democratic dilemmas that face any Government attempting radical change; admitting some of our own errors and listing the lessons we have learned from our experience. As we suggested, in Section 5.7 above (The Alliance) we should not be frightened of such a document talking over people's heads. The reader must understand that

## 6. THE ELECTION MANDATE AND THE MANIFESTO, cont.

we have done no more than bring out-of-control economy under control (though we're certainly the first Government to achieve that for 30 years) and that we have years of work still to do in order totally to transform the country's prospects by the 1990s.

6.4.3 Timing of publication. If we decide to publish a pre-Manifesto of this kind, of real substance and quality, we have to do so early enough to influence the thinking of opinion-formers; and late enough for it to be difficult for our opponents to respond at the same level of quality and rigour. There are already signs that different Ministers are starting to evolve their own Election strategies. There may be a similar risk that we commit CPRS and CRD to policy work which reflects our present concerns but may not turn out to be quite right, once we have done more thinking about the 1989 objectives. We should therefore be thinking, perhaps, of a pre-Manifesto published in the autumn or winter of this year as a by-product of preparatory thinking for our next term of office.

6.4.4 Whatever the timing, whatever we produce must contribute to a feeling of intellectual vigour and managerial competence. After 2½ years in Government, in the toughest economic environment since the War, the Conservative Party must be seen to have more energy, vision, imagination and brainpower than all its opponents combined. That should be the reader's verdict.

7. MAIN POLICY MEASURES FOR 1984-86

7.1 We did not explicitly discuss this stepping stone at Westwell. At the next Election, we shall be reaching the end of what we have called the period of "Transition" and approaching "Stable State". We shall have reached the point (which is more than any other Government has done in the last 20 years) where recovery is possible. That is all. We shall have a weak private sector with very low profitability; very high unemployment; public spending still taking a big enough proportion of GDP to prevent "lift off"; Governments bearing responsibility for public spending but without the power to control it; an economy riddled with wealth-destroying distortions; a trade union movement still waging permanent war against any strategy aimed at economic renaissance.

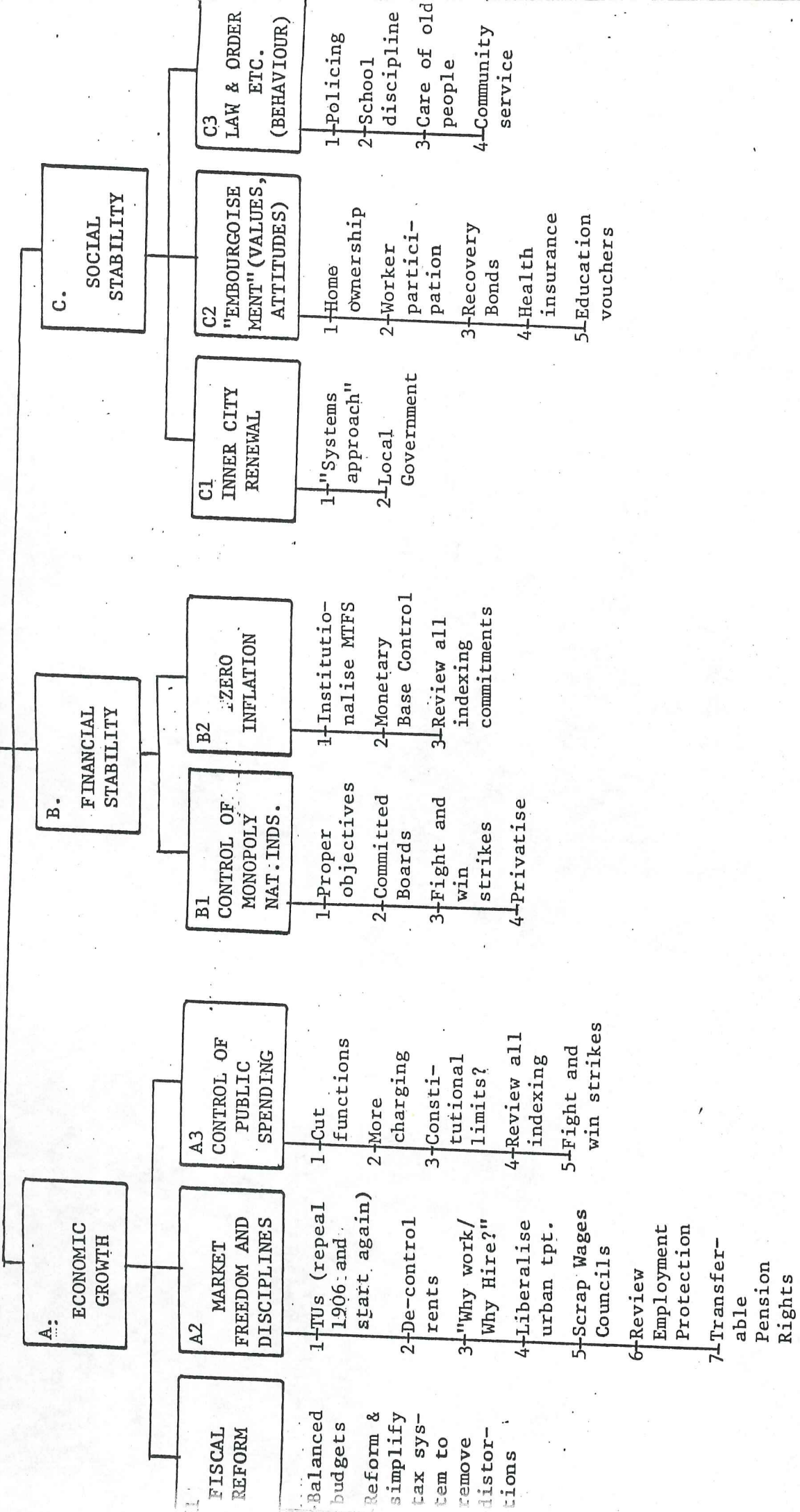
7.2 We therefore have to "re-radicalise" quite consciously and deliberately, as the Party does in Opposition. But we can do so with greater realism borne of hard experience in office, and with all the resources of Whitehall at our command. The main policies for the next Parliament depend on our vision for 1989, on which no work has yet been done. Agreeing the vision and the policies will be an iterative or chicken-and-egg process. Our first attempt at the vision may be too ambitious for the policies that we judge to be practicable. The rest of this Section does no more than suggest a "menu" from which items can be selected, for work to be put in hand. There are probably many more radical ideas missing from it.

7.3 A policy menu

7.3.3 The diagram, figure , suggests that we can move from the sick society to the healthy society by



THE "HEALTHY SOCIETY"



## 7. MAIN POLICY MEASURES FOR 1984-86, cont.

achieving economic growth, financial stability and social stability. Below these three major objectives, there are eight sub-objectives and some possible policy measures suggested under each of those sub-objectives. Some brief explanatory notes:

### A1 Fiscal reform

- A1.1 Balanced budgets. Do we aim for balanced budgets? On revenue only, with deficits on capital investment? Do we revert to original Keynesian principles, using deficits and surpluses as automatic stabilisers? Do we try to keep rates of tax stable and "float the PSBR"? Can certain taxes be used as regulators? Does the achievement of "Stable State" change our thinking on automatic indexing of thresholds and valorisation of duties?
- A1.2 Simplify the tax structure. How far can we go in removing fiscal distortions, impediments to wealth creation? Could we scrap all offsets and get the standard rate of tax down to 15p or 20p in the pound? How to overcome the various vested interest groups blocking such change?
- ### A2 Market freedom and disciplines.
- A2.1 Trade unions. Is there any place for trade unions in a country struggling for economic recovery and already supporting a huge public sector and welfare state? Could we effectively repeal the 1906 Act and start again from scratch? Should a trade union have any immunities at all where less than a certain percentage of its membership vote at union elections? Are there catalytic measures which would accelerate the gradual withering away of unions, together with the sunset industries where they are largely concentrated? Are we really just playing at the trade union issue at present?
- A2.2 De-control rents. Some experts argue that the ending of rent control (dismissed at E by one senior colleague as "purist nonsense") is an essential precondition for urban renewal. American experience bears this out. It is regarded as "politically impossible" so how do we make it politically possible? What's our game plan, and how many years will it take?

7. MAIN POLICY MEASURES FOR 1984-86, cont.

- A2.3 Why work/why hire? Should unemployment benefit never exceed 80% of a person's past earnings? See also Section on page and the New Society article at Annex
- A2.4 Liberalise urban transport. No comment.
- A2.5 Scrap Wages Councils. No comment.
- A2.6 Review employment protection. Can the private sector afford redundancy commitments? What is the rationale? The worker doesn't pay anything to get the job; he doesn't get any redundancy if he was never given the job in the first place but remained on the dole. Why should redundancy apply when he loses a job? What is the effect of big golden handshakes to miners and dockworkers, on private sector settlements? Unsuccessful companies, struggling to stay alive, postpone shedding labour because of the redundancy payments, and so fail more certainly. What about the social security rules which encourage someone to squander his redundancy payment (on holidays or imported goods?) in order to have less than £2,000 capital and thus qualify for social security payments?
- A2.7 Transferable pension rights. Well-trodden ground. Perhaps a big obstacle to bringing good high-flying but younger executives from the private sector into nationalised industries.
- A2.8 "The future of work". We don't know whether the impact of technology is going to cause real and lasting problems. It may simply be a classic SDP/middle-class neurosis, a problem which will be solved by the market, almost before it begins. However, it may be a politically hot issue and the SDP (Lord Harris of Greenwich) may try to make a lot of it. Should we put work in hand in order to be the first with solutions, if it is a real problem, or the first with a demolition, if it is a non-problem?
- A3 Control of public spending
- A3.1 Cut functions. Can this be done from within the Civil Service or public services? Does

7. MAIN POLICY MEASURES FOR 1984-86, cont.

it need an outside agency or an equivalent of an internal audit group? Has the CAG a larger role to play? Does this raise the more general question of Civil Service/public service reform? The statistics suggest drastic action. Health Service employment has doubled from 565,000 to 1,228,000 between 1960 and 1980, yet the number of people covered has grown by less than 1%. Waiting lists are longer now than they were then.

A3.2 More charging for public services.

A3.3 A constitutional limit on the percentage of GDP spent by the state? Something on the American lines?

A3.4 Review all indexing commitments (see also B2.3). State pensions, benefits, police pay, forces pay, firemen etc.

A3.5 Fight and win public service strikes.

A3.6 Extend cash planning, as we achieve "Stable State".

B. Financial stability

B1 Control of monopoly nationalised industries

B1.1 Proper objectives for the nationalised industries. The present exercise shows the difficulty that Government Departments have. Setting objectives is the beginning of mind-clearing about nationalised industries.

B1.2 Committed Boards. Once you have objectives, you can select Chairmen and Directors who are committed to their achievement, with a proper remuneration package to go with it. We should be getting together a crack cadre of Chairmen developing with them radical strategies for privatising/transforming the performance of such industries. The thinking will not be done in Whitehall nor by most of the Chairmen concerned.

7. MAIN POLICY MEASURES FOR 1984-86, cont.

B1.3 Fight and win strikes.

B1.4 Privatise. But this will have to be part and parcel of a coherent strategy for each industry.

B2 Zero inflation

B2.1 Institutionalise MTFS. Countries that have low inflationary expectations (West Germany, Switzerland) don't need an MTFS. Almost certainly we want an institutionalised MTFS, rolling forward year by year through to 1989. It will take that long to get inflationary expectations to zero.

B2.2 Monetary Base Control. Can we really put the inflation problem to bed for good without MBC?

B2.3 Review all indexing commitments. See also A3.4. Indexing affects both public spending and the economy's inflationary propensities.

(Insert above, under A3.4: Do we need rules (eg for partial indexation, pay or prices whichever shall be the smaller, when inflation is rising? Would it be possible to do a once-for-all five point de-indexation of pensions, using the money to help finance, for example, a reduction in the retirement age to 60?)

C. Social stability

C1 Inner city renewal

C1.1 It needs a "systems approach". As suggested at the time of the Toxteth report, our present approach is quite inadequate. But we have to crack the problem of urban recovery or "managed decline" sooner or later.

7. MAIN POLICY MEASURES FOR 1984-86, cont.

- C1.2 Local government. Should its funds be directly administered by Government? Should rates be abolished altogether? Do we need local government at all?
- C2 Embourgeoisement (values, attitudes)
- C2.1 Home ownership. Can we do more to speed the sale of council houses and home ownership generally? For example, rent-based mortgages, now being examined by DoE, on a proposal prepared by Christopher Monckton.
- C2.2 Worker participation. Tax favoured loan notes or convertible loans, available optionally in lieu of pay increases.
- C2.3 "Recovery bonds". Psychologically attractive, originally proposed, I think, by Walter Salomon. Maybe a crackpot scheme, or perhaps there's something there. Psychologically conducive to a "jam tomorrow" mentality.
- (Insert above under C2.2: Workers' Councils, to force management to communicate directly, not through shop stewards. Even the moderate union will resist, insisting that councils can only be elected from union members.)
- C2.4 Private health care. Measures to encourage, and gradually reduce the cost of funding the NHS, forcing NHS to do proper costing of its present operations. (CPS has a group working on this, in contact with Norman Fowler and his officials.)
- C2.5 Education vouchers. And any other measures to increase parent power and responsibility. (CPS has a group working on this, in contact with Keith Joseph.)
- C3 Law and order etc (behaviour)
- C3.1 Policing.

## 7. MAIN POLICY MEASURES FOR 1984-86, cont.

- C3.2 School discipline. Moves towards a core curriculum?
- C3.3 Care of old people. Perhaps the Conservatives' main "caring" crusade. See Annex
- C3.4 Community service. Should we be doing work on this (developing from the scheme proposed in the Budget) on the grounds that it will be too late to set them up by the time it becomes obvious - if it does - that they are necessary?
- C3.5 We need a "systems approach". Breakdown of law and order, parental discipline, school discipline, teacher authority, the shifting of moral norms is all part of a complex "systems problem" similar to, and linked with, urban decay. It needs a similar "total systems" approach. Piecemeal measures will probably be useless.

(Insert under C3.3: Quite apart from electoral considerations, old people are the most vulnerable segment of the electorate and they have the shortest life expectancy in which to enjoy any fruits that may flow from the unpleasant medicine the Government has had to administer. Pensions have been protected, but the rest of the story (see Annex ) is pretty depressing.)

### 7.4 Afterthoughts

- 7.4.1 The menu above merely skims over some of the policy issues we may need to address. The structure of objectives and the detailed contents may be wrong, as well as being obviously superficial. But it is the sort of approach we need, in order to start thinking, otherwise the sheer momentum of the things the Departments

## 7. MAIN POLICY MEASURES FOR 1984-86, cont.

want to do (which are already being generated without any reference to a political vision for 1989) will take over. Below are some of the other questions we need to think about.

### 7.4.2

Is there such a thing as an "industrial policy"?

Is that merely another term for supply-side accelerators? Are there other areas, like IT, where the Government has to intervene and may have to spend money? Or are we really talking about credit assistance and political salesmanship for major export contracts? (Contracts which account for only about 5% of exports, we believe.) Is Britain's past experience with industrial strategy proof that Government cannot intervene effectively? Or simply that British Governments cannot do so because they have not the commercial know-how? If we conclude that there is no such thing as industrial policy in the interventionist sense, are we really saying that we must go much further towards Hong Kong-style liberalisation, to give our economy a chance to keep up with, let alone catch up, our trading partners?

### 7.4.3

Can a radical set of policies be prepared and implemented, without major reforms in the Civil Service? Rather than another ill-fated Fulton, which will be shunted into a siding by the mandarins; should we be putting more of the top jobs out to open competition at proper market rates, on 5-year contracts? Do we believe that Ministers can drive through radical reforming programmes with today's Civil Service, unless they have the help of combative and competent policy advisers? How do we line up such people for the second term and how do we prepare the political ground for bringing them in? Or don't we need them? Do we need a Prime Minister's Department?

### 7.4.4

Can we put the most contentious legislation on the Statute Book so that it would be triggered



## 7. MAIN POLICY MEASURES FOR 1984-86, cont.

immediately after a Conservative Election victory? This would allow a full 5-year Parliament for the dust to settle, so that people could see that such measures were in the end beneficial. Can we check-mate Labour's attempts to veto policies like the de-control of rents by arranging adequate compensation for the victims of such a veto, such compensation to be automatically triggered by any change in the law? Have we really racked our brains to design such "anti-handling devices"?

7.4.5

Should we be thinking of any constitutional reforms or safeguards to ensure political stability for the future.

7.4.6

The free enterprise culture. Everywhere in public life we find people in positions of influence and authority who are opposed to the free market system. They range from Left-wing academics who are opposed to free enterprise totally, at one extreme; to corporatists who infest nationalised industries, the Manpower Services Commission, many of the Whitehall Departments, who simply believe that "the market no longer works", not realising that it has not been allowed to work; so that they continue to take measures which damage the market process even further and thus appear to vindicate their views. Do we need a conscious and determined programme to replace these people? Is there any chance of national recovery until and unless we do so?

8. MAKING IT HAPPEN

8.1 Is the effort worthwhile?

8.1.1 There is no point in trying to make any of the things suggested in this report happen, unless we believe it is worth the effort. We believe it is worth the effort. For example, at a meeting called last November by Cecil, we found that we could not make plans for PPBs because we had not yet made up our minds in sufficient detail about the main Election issues and how we were to handle them. (In fact, it was for this reason that Cecil had already suggested that it was time for some detailed thinking to begin, and proposed the Westwell meeting.)

8.2 The work to be done

8.2.1 Here are the main things we need:

- (a) A clear and comprehensive agreed statement of what is to be done. This report is a first attempt - no more - at such a statement. It will never be complete or perfect, but it is the "architect's plan" without which nothing else can start.
- (b) Opinion research on key issues (already well in hand at Central Office).
- (c) The setting up and co-ordination of whatever policy groups the plan, when agreed, calls for.
- (d) Developing a "game-plan" for communications (this is already in hand under Chris Lawson, but cannot be completed and implemented until the electoral strategy - whether or not the one outlined in this report - is agreed).

8. MAKING IT HAPPEN, cont.

- (e) The preparation of the Manifesto, speeches, broadcasts, posters, films, "events" required by that game-plan.
- (f) A system for dealing with day-to-day communications, especially as we approach the Election. This means getting the right Minister, properly briefed, in the right place, at the right time.
- (g) Meticulous preparations by the Government for the more predictable "crisis management" tasks - usually public sector strikes - so that such events (which can seriously undermine a Government's authority and credibility) can be used instead to educate the public, make our electoral case, and demonstrate the Government's competence.

8.2.2 There should be no dramatic announcement internally of the Stepping Stones project. This would raise expectations too high and could set some colleagues' minds against it. The Prime Minister should simply let colleagues know that Central Office are preparing an Election strategy, set in the context of a programme for the second term, and that named individuals would be coming round to discuss this strategy with colleagues, in order to get their ideas.

8.2.3 We should work from the bottom up as well as the top down. We should ask the colleagues what they see as their Department's key objectives and policies for 1984-86 and for the remainder of this Parliament; and for their views on the key Election issues. This reduces the chance that important issues have been overlooked, tests the quality and range of Departmental thinking, warns us of Departmental "pet projects" (which might divert resources and time from the achievement of our main objectives) and ensures that individual colleagues feel that they have been fully consulted and are therefore under an obligation to help the exercise forward.

## 8. MAKING IT HAPPEN, cont.

- 8.2.4 Much will depend on whether the legislative and Cabinet Committee work load start to ease over the next 18 months. It is not possible to discuss a programme of this kind in the odd hour here and there. People's minds simply don't begin to operate that way unless they have half a day or a day to spare. But most of the detailed work can be done not by Ministers but by those who do have the time (see Section 8.3 below), provided enough time and effort has been invested at the outset to ensure an understanding of (in Ruskin's words) "the thing actually to be done".
- 8.3 No shortage of people
- 8.3.1 We have plenty of people, lots of skills, lots of brains available in Whitehall and in the Party. It should be possible to use the staff of the Research Department, advisory groups to CPS, the staff of CPRS, special advisers in Whitehall, back-benchers, perhaps some help from IEA. All we need is an agreed programme of action and appropriate organisation.
- 8.3.2 Using back-benchers on policy groups would be the best way to get them actively committed instead of carping and negative. But we should not expect too much from back-benchers who will have many other diary commitments. It would also be a great mistake to set them to work too soon before we were absolutely clear about the tasks to be done.
- 8.3.3 It should be possible to use CPRS in a more political role and Cecil has already asked John Sparrow to join an advisory committee on policy, at Central Office.
- 8.3.4 The Research Department would be, inter alia, a natural secretariat. Its present roles are: providing Parliamentary

## 8. MAKING IT HAPPEN, cont.

briefs; carrying out research; taking charge of communication. Some functions might have to be dropped. There will be difficulty with the 1922 Committee, however, if we say that the Research Department is not covering certain areas. But resources are finite. We can't do everything, but it is most unlikely we can drop the desk officer's function.

### 8.4 We will need a "command structure"

8.4.1 We shall need a small steering group of six to eight senior colleagues to agree the action programme, and then to meet periodically and review progress. This might normally be chaired by Willie Whitelaw (as the Stepping Stones steering group was) and occasionally by the Prime Minister. This would signify full Prime Ministerial backing, and would help to close the gaps between different and conflicting opinions within the Cabinet. Francis Pym would need to be on the steering group.

8.4.2 We will need to resolve the question of secrecy. Because of the potential damage done by leaks to hostile journalists, we may get so obsessed with secrecy that we then end up with the battle plan kept secret from many of those who have got to fight the battle. It should be possible to prepare an expurgated version of this report, for example (or any other equivalent document) for wider circulation, carefully drafted so that it does not really matter if it falls into the wrong hands. Alternatively, different Sections of the report could go to different people who are concerned with different aspects of the programme. The plan as a whole, and especially the most sensitive parts of it (for example the strategy - when agreed - for dealing with the Alliance) would still be known only to the members of the steering group.

## 8. MAKING IT HAPPEN, cont.

8.4.3 Who will co-ordinate day-to-day communications as we approach the Election? It was suggested at the Westwell discussions that we might need a "duty Minister" each day, able to respond and comment on any important events. Alternatively, Francis would ensure that the right Departmental Minister was available to respond fast to events and messages from our opponents. But this won't happen unless a good deal of effort is put into it. Labour and Alliance spokesmen, and trade union leaders, have much more time and energy for this sort of thing than do Ministers with heavy Departmental responsibilities. This is why we will need deliberately to lower the Governmental work load in order that Ministers can become politicians first and Ministers second, well before the Election itself.

### 8.5 Staffing and organisation after the Election

8.5.1 The Civil Service is a much more formidable obstacle to national recovery than the trade unions. It is difficult for 90 Ministers to shape history, in the face of three or four thousand senior civil servants who see it as their job to safeguard the Centre ground of the status quo against assaults from Left or Right. They do not accept our view that the so-called "Centre" has itself slipped to the Left. They do not understand that our aim is to move the whole spectrum of politics back to the Right, so that the political Centre ground at last coincides with the beliefs and values of the great mass of ordinary voters.

8.5.2 For the Civil Service, nothing new and risky must ever start. Nothing old and familiar must ever stop. Nothing can be done for the first time. On every issue - trade union reform, the movement to cash planning, the handling of crises like British Leyland, major public

## 8. MAKING IT HAPPEN, cont.

sector strikes, the need for rapid deceleration of public service pay and scrapping of comparability, nationalised industry objectives, the BR/ASLEF deal of 1981, "unthinkable" Budgets - on every one of these central strategic decision points\*, most officials (with honourable individual exceptions) have argued for the easy way out, the fudged solution.

### 8.5.3

The self-fulfilling conviction that "the market doesn't work any longer" pervades Whitehall, the public services, nationalised industries, the Manpower Services Commission, and much of the Conservative Party in Parliament. The Policy Unit believes that we will need a powerful cadre of market-orientated special advisers for the second term, as part of the long struggle to undo the damage done by a brainwashed corporatist establishment over the past 30 years. Independent-minded colleagues may argue that they can prevail against the suffocating conventional wisdom of Whitehall without such assistance, but we believe that it is almost impossible in practice, without daily contact with kindred spirits.

### 8.5.4

In Whitehall, it is difficult to put together a "task force" which can actually complete a task. Some advisers on the CPS Nationalised Industry Group, for example, tell me that they now know more about the nationalised industries than Departmental officials they have had dealings with, because the officials have all changed since the CPS Nationalised Industry Group came into being before the Election. A larger force of special advisers (provided they have the robustness and maturity to challenge the Whitehall culture, rather than be meekly assimilated into it) may help maintain the momentum of the Government's policies.

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\* With all of which the Policy Unit has been involved.

8. MAKING IT HAPPEN, cont.

8.5.5 David Young has suggested that, in keeping with the mid-term to mid-term Stepping Stones approach, Departmental Ministers should themselves ideally change at the mid-term, rather than at an Election. At the very least, they might continue in place for 6-12 months after the Election. This would ensure that there was not a sudden across-the-board break in continuity just after an Election, when big mistakes are most likely to be made; and officials and nationalised industry chairmen would no longer be so sure that they could start going slow as the Election approached. There may be objections to this, but it's an original thought.

8.5.6 It should not be necessary, after the next Election, to keep the number of special advisers so low on the grounds of economy. The last Labour Government had 46 special advisers in Whitehall. We now have less than a dozen. There are, Bernard Donoghue tells me, more people employed in storing and changing the pictures for Ministers' offices than there are special advisers.