



INSTITUTE OF DIRECTORS

From the Director General

Director General
Sir John Hoskyns

PERSONAL AND CONFIDENTIAL

Prime Minister
is total not as unhelpful
as you might think ~~of~~ from reading
the first paragraph.

FERB
7th February, 1985
7.2.

The Rt.Hon. Margaret Thatcher, M.P.,
10 Downing Street,
London S.W. 1.

It is the
Customary rant.
No presumption. not

116 Pall Mall
London
SW1Y 5ED
Telephone
01-839 1233
Telegrams
Boardrooms
London SW1
Telex 21614

Dear Margaret.

We have been doing some thinking here about the main issues confronting the Government in the longer term and three articles will be published in The Times over my name next week. We have picked the brains of Douglas Hague, Pat Minford, Lionel Bloch (one of the key people on the original CPS Trades Union Reform Committee), John Kay of IFS and others. The aim of the articles is two-fold: first, to set out some relevant thinking for government; and second, to try and straighten out the confused thinking amongst the Government's critics and quite a few of its own back-benchers.

I enclose a copy of the first article - in draft form, and not proof read - which will come out on Monday on the Features Page of The Times, with further articles planned to appear on Tuesday and Wednesday, we believe.

Yours ever

John Hoskyns

CHAPTER 1 - SETTING THE SCENE

INTRODUCTION

Despite an unusually long period of financial stability and gradual recovery, and well before the recent slide in the oil price and the pound, doubts about any kind of British economic miracle were already on the increase. Continuing tactical crises, so familiar in the sixties and seventies, are now less frequent. But the post-war strategic crisis - the long process of national decline and fall - remains. It is unlikely to be surmounted on present policies.

Labour costs are once again rising in this country, while they are static or falling for our main overseas competitors. The problems of unemployment and public spending still seem insoluble. The financial burden of supporting the retired population, and especially the very old, grows heavier. State pension payments as a proportion of total UK personal income have more than doubled in the past 20 years and the percentage is likely to grow by nearly half again over the next 15 years. The working population has increased by one million since 1970 (400,000 since 1979) and will grow by a further half million by 1990, and there are no signs of unemployment falling. All-embracing welfare provision appears to undermine the economic process necessary to support it. The hidden economy grows, as people migrate to a non-taxpaying regime. Any suggestion of radical change runs into opposition from vested interest groups, which, seeing no sign of an economic miracle, cling grimly to what they hold: home owners, parents, council employees, business interests, trades unions, professions, farmers, and the MPs who represent them.

The preservation of "today" - and, indeed, yesterday - remains sacrosanct and tomorrow is regarded as expendable. In this deadly negotiation between the present and the future, the first-order problems are scarcely discussed: the £40 billion of social security spending, much of which is effectively demand-determined and thus uncontrollable; the economic effects of welfare in all its forms; the growing cost of the health service; the poverty and employment traps which block the escape from unemployment into paid work; the economic costs of collective bargaining and employment protection; the tax burden on the low and/or average paid; indexation; the right, in practise, to be paid for declining to take available work. These problems interact together with enormous power. Most of them are consequences of patchwork policy-making by past governments. Many are the results of specific pledges given by politicians under pressure. Together they imprison governments in what appears to be an inevitable historical process of decline. The "policy box" in which ministers are at present locked is too small to contain any solutions.

THE GOVERNMENT'S ACHIEVEMENTS

Paradoxically, it is the relative success of government since 1979 which brings these problems into our range of vision. Memories are short and people already forget the years when governments lived from crisis budget to crisis mini-budget. Already we take for granted the fall in inflation, the defeat of public sector strikes, the reduction in trade union power, the slimming of the Civil Service, the huge programme of denationalisation, the removal of all those hopeless controls and regulations - prices, dividends, profit reference levels, exchange controls, pay norms. All this has been done in the wake of the 1979 doubling of oil prices. We forget that in 1976 the Government was borrowing today's equivalent of nearly £30 billion and inflation was over 25%.

We forget the days when the growing tax burden on the average worker was sold back to him as "the social wage", and concern about trade union disruption routinely dismissed as "reds under the bed". Because previous governments were always fire-fighting, they never confronted the country's central dilemma: our unsustainable post-war political economy. The present government, despite all its inevitable mistakes, is the first to reach the threshold of the Augean stables. Its predecessors were swept away, exhausted and discredited, before they even got to the stable door. Today, we ask whether the government is capable of long-term strategy. We never asked the same question of its predecessors because they were burnt out long before the question arose.

CAN WE AFFORD UNDERKILL?

Where is this country trying to get to? Where would unchanged policies take us? What are the likely long-term consequences of a cautious strategy of "consolidation"? Might the political and social tensions arising from further radical change undo the likely benefits? What do we mean by lasting recovery? Political and economic stability as a sort of "second world" economy? Or a true reversal of a hundred years of decline? Is the latter possible, or is decline now programmed into the British character? It is a matter of risk analysis. The penalty for overkill - that is, developing a programme which turns out to be more radical than was necessary - may be less than the penalty for "underkill", the more familiar British tendency to do too little, too late. If we conclude that settling for a quiet life now may produce unquiet lives for our children, then we have a duty to make policy on worst case assumptions. If, on the other hand, we conclude that a radical programme is simply not possible, then we had better concentrate our minds on how to preserve political stability with continued relative decline. But this has,

of course, been the establishment posture for most of the post-war period up to 1979, and the results to date are not encouraging.

I believe that the government must err on the side of overkill. If other industrialised economies were in a similar state to our own, we could afford complacency. We would all be equal and all relatively poor. But that is not the case. It is true that there are signs of the British malaise in other European economies, and that they too are beginning a painful reappraisal. But we start from a long way behind. Perhaps more important, our cumulative "policy configuration" may have made our economy inherently unstable, so that the mechanisms by which it adapts to change and external shock threaten to break down under stress.

THE DECLINE OF RATIONALITY

The present government - radical enough by post-war standards - operates in a hostile intellectual climate, shaped by governments which generally took the line of least resistance. It is a climate which makes rational thought difficult. All actions are judged in terms of conduct today, rather than results tomorrow. Symptoms are treated as causes. Those who propose painful measures are accused of wanting them for their own sake. It is a world of moving goalposts, with little awareness of causes or consequences, no comparison with the past, or with the experience of other countries. There is a total unawareness of secondary economic effects. The teaching of what Lord Bauer has called "priceless economics", has reinforced the widespread belief that "in today's complicated world, the market no longer works", which has led to policies that have harmed millions.

It requires great courage for Ministers to speak the truth in such a climate. Courage requires convictions which are the fruit of intellectual effort, not of blind faith. It is not the job of civil servants to develop such convictions (they must, after all, stand ready, at the limit, to serve a Marxist government if one is freely elected), while ministers simply do not have the necessary thinking time. This is why they so often find themselves describing objectives for which they are unable to devise measures, or committing themselves to measures whose consequences they are cannot predict.

We all know, now, that there is an ideological battle between those working for stability and recovery and a minority which, to put it plainly, hates Britain, hates the United States, supports the Soviet Union and wishes to destabilise the democratic system. But there is also an intellectual civil war - perhaps even more dangerous - within the establishment, between those who know that time is running out and who feel the impulse to go back to first principles and think the problem through; and those who prefer the status quo or are simply too tired to go on thinking at all. To an alarming extent, those who are prepared to make the effort are outside Whitehall and Westminster, rather than in. As Mr. David Hart has pointed out, in a recent article on these pages, the "will to lose" is firmly established.

Businessmen are sometimes part of this problem. Like politicians and civil servants, they have organised themselves for coping with the present state of affairs. By the time they are in their mid-forties, many of them will have looked around and concluded that Britain, however sickly, "will see me out". If enough people, in and out of Whitehall, think like that, it probably won't.

SO WHAT DO WE DO?

The Thatcher government's first term concentrated on financial stability: the control of inflation, public expenditure and borrowing, public sector pay and the first steps to reduce union power. Now, everyone is beginning to talk about secondary issues of the "we must" variety; we must increase the number of engineers; we must make education more responsive to industry; we must improve our product design; harness our national research effort more closely to industry; change public attitudes to the wealth creation process, be more entrepreneurial and so on. There is nothing wrong with these ideas, all of which merit early attention, provided they can be translated into policy rather than remaining worthy aspirations. But there is an entire and crucially important phase missing: economic stabilisation.

We still need a quiet revolution on every aspect of our present policies for spending, taxing, working, earning and "caring". This is, I believe, recognised more clearly by outside policy groups than it is in Whitehall and Westminster. In this wider and intellectually richer world, party-political viewpoints are becoming less relevant. People starting from different political positions are brought closer together by their analysis of Britain's problem. Instead of being separated by ideology, intellectual honesty forces them to an increasingly shared understanding of the enormous problem facing the country. But it will not be enough for outsiders to present analysis and prescriptions. They have first to persuade the official and elected policy makers to think in a different way, and to look at an uncomfortably different agenda. These articles are intended to start that process.