



10 DOWNING STREET

PRIME MINISTER.


I THINK THAT THERE
IS VERY LITTLE
THIS.

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GEOFFREY HOWE AND

CECIL PARKINSON?

- yes - under
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16/12/1962.



From: The Rt. Hon. Peter Walker, M.B.E., M.P.

HOUSE OF COMMONS

14th December 1982

PRIME MINISTER

MEMORANDUM ON A CONSERVATIVE STRATEGY FOR THE NEXT TWELVE MONTHS

Events have moved on since I sent you a wide-ranging memorandum last February on the dangers and opportunities ahead for our Party and I thought it might be useful to update it.

Ten months ago I wrote that the SDP/Liberal Alliance was the most ominous third-party threat in modern times. It still is, even though events in the Falklands and the failure of Roy Jenkins to provide inspiring leadership has somewhat drawn its teeth. We cannot afford to be complacent about its recent setbacks, or our recent resurgence.

In February 1974 Jeremy Thorpe's Liberals alone took away enough Tory votes to force us to leave office. In the opinion polls the Alliance is still doing consistently better than the 19% polled by Mr Thorpe. Moreover it is likely to take two Tory seats for every Labour seat. That will enhance Labour's ability to win an overall majority, or to emerge as the biggest party, on a low percentage share of the vote.

Those heady days when the Alliance and its propagandists dreamed of forming the next government have vanished and should not reappear this side of election day. But if it was to consolidate its present support and enjoy only a slight shift in its favour in the months ahead then it could still have the ability to do us great harm, even to the extent of denying us another five years in government.

The Northfield by-election illustrated the potential danger. Despite all the media coverage and the widespread expectation of a close result, the turnout was up to 25% lower than anticipated. If these abstainers were to swing either to the Alliance or the Labour Party we would be in real trouble in a number of marginal constituencies. These voters are suspending their judgment and the year ahead must be devoted to winning a majority for the Tory Party.

It will not be easy in the current economic climate. The next election will be won or lost in the marginals of the North-West and the Midlands and that is where our industrial base continues to crumble. There is increasing concern among Tory

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backbenchers for these two regions that any economic upturn will not come in time to save their seats. Even MPs like Tony Beaumont-Darke and Jill Knight have become quite vocal in their criticisms of government economic policy. They rightly fear that things will get worse this Winter. Private industry in the Midlands in particular is in for another raft of redundancies in the months ahead. We can expect a steady erosion in support if we reach Spring without any prospect of an economic upturn on the horizon. There is then a danger that many marginal Tory voters will turn to the Alliance or even the Labour Party. Mr Michael Foot remains one of our greatest assets, but the Labour right will use this Winter to consolidate its new power to make Labour look less frightening to the wavering centre voter. That is why I still urge positive moves in our economic policy.

The Economy

Last February I urged that monetary targets and the PSBR should not be the centrepiece of economic policy to the exclusion of all other considerations. I am delighted that both no longer enjoy the elevated status they once had. The decision to allocate £2.5 billion from the contingency reserve for spending in 1983-84 and the downgrading of monetary targets are to be welcomed. It is now apparent to all that our high interest rates were much more connected with interest rates on Wall Street than with any particular size of the PSBR, as I argued in my February memo. It is also good news that the Treasury is now following another policy advocated in that memo: letting sterling slip, particularly against the trade-weighted basket of currencies. That will help to restore some of the 35% we have lost in manufacturing industry's ability to compete.

The recession has continued to bite with even more ferocity than I anticipated. True, inflation is lower than expected. But unemployment continues to rise and industrial production to slump. Recent changes in government policy will eventually produce happier economic prospects. But we can nudge the economy closer to recovery with two ideas I outlined in my last memo: time-dated investment grants and a far clearer indication in a number of key sectors as to the manner in which low pay settlements could result in job creating public investment.

I explained the case for both to you in February. The subsequent stagnation of the economy makes the arguments in their favour even stronger today. But we are running out of time if we are to reap any benefits before polling day.

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Incentives to bring forward industrial investment would boost beleaguered capital goods firms, many of whom in the Midlands totter on the verge of bankruptcy. Such investment would prepare British industry for the upturn. If a time-limit of April 1984 was put on the grants it would generate investment now.

The Industry Department's investment scheme for small engineering firms shows what can be done. It gave $33\frac{1}{3}\%$ grants towards the purchase of certain kinds of advanced capital equipment. An initial allocation of £20 million was supposed to last for a year. But even with a further £10 million top-up, the demand was so great that the money ran out after only two months during which 1,755 firms had asked for assistance. This suggests that an enormous amount of investment could be generated by a time-dated scheme on a far grander scale.

It is no good frittering away new investment in higher inflation. That is why I still maintain that low wage settlements in a number of key areas should be rewarded with extra public investment. If we can establish in the public mind the link between low pay rises, extra investment and more jobs we will take a major step towards a more competitive economy. It should be the cornerstone of our anti-inflationary policy in an expanding economy.

Trade Policy

Last February I argued for a more positive trade policy. The events of the last ten months have made it more necessary than ever. The drifts towards protection in France, Japan, America and even West Germany is a major threat to our interests and demands a response.

Free trade must always be the hallmark of a Tory government. But it must also be fair. I suggest you should take the initiative in rooting out those examples where our exports are clearly being discriminated against by countries which enjoy free access to our markets. The Trade and Industry Departments should draw up a list of the worst offenders. They should be told to desist, in the interests of free trade. And they should be left in no doubt that retaliatory action will follow if they do not: their exports to us should be treated in exactly the same way as our exports to them. We have been too timid in the past, often because of a Foreign Office desire not to rock the boat. But exhortation will not work unless the threat of retaliation is believed. We must act, as well as talk, tough.

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Industrial Policy

We still have a long way to go to restructure British industry to provide tomorrow's jobs. I believe our Government should do more to set the pace. Japan is about to launch a new wave of government-sponsored investment in co-operation with private enterprise in the sunrise industries, including fibre optics, biotechnology and micro-electronics. It is exactly the sort of government-business co-operation which paid Japan such handsome dividends in the car industry in the 1960s and computers in the 1970s. The sums envisaged are astonishing: £22 billion for fibre optics; £64 billion for micro-electronics; £110 billion for other research, development and production capital. The French are taking a similar path: £14 billion will be pumped into electronics in the next five years.

I applaud Kenneth Baker's efforts at the Industry Department. But the resources available to him are puny compared with those available to our major competitors. We must re-think our industrial strategy if we are not to be left behind in the third industrial revolution.

Social Policy

On the domestic front I still believe we need a more radical approach to the extension of home-ownership. If we are not careful we shall fight the next election with 90% of those who were council tenants when we came into office still council tenants, because they rejected the terms for the sale of their houses which we have made available to them. I believe that if we do not take a far more radical approach the Alliance will. We may then find that council tenants could vote for the Alliance because their proposals would offer home-ownership on better terms than were available from us.

I do not accept the projections for future rates of sale prepared by the Department of the Environment because we have already disposed of the most attractive houses to the more prosperous tenants, and during the period of the next Government sales will be at a much lower rate unless the terms of purchase are radically improved.

I would also repeat the suggestion I made to you in February, that we should, before the election, prepare a major White Paper on education policy, setting out our objectives for the education system in the medium and long term. The education establishment vote is very substantial and one that you delivered in both 1974 and 1979; I am sure that they would respond positively to a serious attempt by the Government to define its long term education objectives.

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Defence Policy

I come to this last, though in many ways it is the most important. At the core of our electoral strategy must be the fact that this will be the first general election since the 1930s in which the major opposition party is in favour of a measure of unilateral disarmament. As we bring this to the voters' attention we must combine it with a strategy to expose Labour's strategy for leaving Europe.

There is great peril in Labour's defence and European policies and the public is not yet fully aware of it. The unilateralists have growing public support. Exiting from Europe does not scare many people.

We need a concerted campaign to expose the unilateralists and to put the multilateralist case. By this I mean more than a few speeches in the House or a few extra press releases. The Government must act as one in a concerted effort to explain our defence policies, re-state the case for the Atlantic Alliance and argue for multilateral disarmament.

The unilateralists' peace movement is now exceedingly well organised. There is no movement making similar impact for the multilateral argument. We need to organise in the coming twelve months demonstrations, rallies and massive media coverage presenting the case for multilateral disarmament through strength.

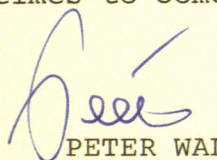
It is not just British Legions, the Territorials, the regimental associations and Tory committees that need to be mobilised. We need to put across a case which will have the support of the young and the women on a greater scale than that which has been achieved by the peace movement.

It is also vital to obtain the support of the major churches. There is a growing danger that unilateral disarmament is becoming synonymous with Christianity and morality. This is totally wrong and it is vital that we persuade the Christians in our country that the Christian needs to accept the responsibilities involved in preserving peace and freedom.

If we cannot carry the country on this issue it is not worth winning on anything else.

Conclusion

Last February I wrote that we could win the next election. I still believe that to be the case. But too much complacency has seeped into the Tory Party because, against the odds, we are favourites to win. I do not accept that victory is a foregone conclusion. We will win only if the voters sense the next five years will be better than the last five. The purpose of this memorandum has been to suggest ways to give the voters tangible evidence of better times to come this side of polling day.


PETER WALKER