

Sir K Joseph MP



1 October

MRS. THATCHER

1. Sir Keith Joseph is, this afternoon, sending an open letter to the Prime Minister saying that we have paid a high price for the Social Contract, which he describes as "a devil's bargain".
2. There is a press conference at the CPS at lunchtime today, where a booklet entitled "Stranded on the Middle Ground" will be released containing 8 of Sir Keith Joseph's speeches, including the ones called "Government Spending Generates Unemployment" and "The Economic Consequences of the Common Ground". The foreword apparently contains nothing new.

We are collecting copies of the open letter and the booklet from the CPS at 2.30 and, in view of tomorrow's lobby briefing, both may in ~~the~~ eyes of a few take on more significance (real or symbolic) than in normal circumstances.

I will, of course, ensure that Sir Geoffrey Howe also receives copies.

A handwritten signature in black ink, appearing to be the name 'Richard'.

Richard

Sir K. JOSEPH MP

The following is the text of an open letter from Sir Keith Joseph, M.P., Conservative Spokesman with Overall Responsibility for Policy and Research to the Prime Minister, The Rt. Hon. James Callaghan, M.P.

Dear Prime Minister,

Your speech at Blackpool came to grips with some of the grim realities of our economic plight. Your unqualified, if belated, acceptance that we can no longer spend our way out of a recession, and that to try to do so would cause disastrously higher levels of inflation and unemployment, was particularly welcome. So was your recognition that profits - which many in your Party loathe - and rising productivity are the indispensable sources of investment, jobs and prosperity. You were also right to accept that bringing down unemployment involves being much more competitive and entails cutting real wage costs.

The fact that the majority of delegates evidently didn't believe a word of your message did not stop you saying what you intended to say, but you have evidently glimpsed only part of the truth.

Most significantly you have not apparently recognised the catastrophic effects that the price paid to secure the social contract is having on the well-being of the population as a whole, including the members of unions themselves.

Indeed, you continue to boast of the Government's agreement with the T.U.C. You claim that it enables you to reduce inflation and maintain jobs. According to Mr. Healey the deal is the envy of the Western world - a bizarre claim bearing mind the national humiliation involved in periodically dashing off begging letters to central banks and the I.M.F. In reality, the agreement is a 'cure' which kills.

There are two crucial truths which follow from your analysis at Blackpool. First, it is governments that cause inflation - by creating excess monetary demand. Secondly, it is trade unions that cause unemployment - by insisting on wage costs that render us uncompetitive. Thus it is for government to reduce inflation and trade unions to reduce unemployment. Unfortunately, the deal you have struck with the unions has prevented both the Government and the unions from fulfilling their quite different responsibilities.

The damage done to people's lives and savings and jobs by the fool's bargain made by the Labour government with the T.U.C. is immense. As a result of it the unions have been enabled to dominate the economic climate and the law in field after field - all in return for the wage restraint that is anyway, in their own interest.

For, in order to get the unions' agreement and continued support for the pact the Government has accept^{ed}/conditions which doom the country to worse inflation, to worse slump and to higher unemployment. As you must surely know, trade union leaders are using the bargaining power which the social contract has given them to demand the very policies which are bound to make our situation drastically and lastingly worse.

Some of this is deliberate. Some trades union leaders want a totalitarian society and, therefore, seek, for political reasons, to increase ever further the State's already excessive spending. Others with large memberships in the public industries have a vested interest in the maintenance and enlargement of a vast, state-owned sector. Others are still trapped in old, powerfully-held views, even nobly conceived beliefs. Sometimes these three motives are intertwined.

But government spending, except for those who want a totalitarian state, is no virtue in itself - and certainly not at levels which are so far beyond our own capacity to pay. Much of it anyway is widely known to be ill-considered or wasted. Government spending is no longer only paid for by the rich: the poor and the hard-pressed are taxed as well.

And government spending at to-day's levels, together with the endless legislation, regulation and bureaucratic nagging that comes with it, stifles the spirit of enterprise and expansion and thereby erodes jobs and job-prospects.

In my condemnation of the pay pact I am not arguing about the figures themselves - the £6 or the so-called 4%; we both know the damage to differentials and efficiency. Of course, wage restraint in itself is sensible and in the unions' own interests - because in the present circumstances it does protect jobs. But, wage restraint should neither be enforced nor should it have to be paid for. There should be no need to bribe people to do what is in their own interests.

I shall be as candid as you were in your defence of profits: your government is manacled, handcuffed and straitjacketed by the conditions it accepted in pursuit of pay restraint. The price for the country and the unions will continue to be inflation, unemployment and slump, unless you can free yourself.

And the consequences are not only just economic. For fear of upsetting trade union leaders and losing their support for government-imposed wage restraint, you are allowing or enforcing numerous follies and handicaps and barbarities: closed shop bullying; pandering to dock workers; the so-called Employment Protection Act which price more people out of jobs than it keeps in them; much overmanning in steel and on the railways; nationalisation of oil, shipbuilding and aircraft; indiscriminate subsidies for council tenants; rent controls and security of tenure carried to degrees which dry up the supply of housing and cause rising homelessness; vindictive taxing of managers and investors; price control and dividend control.

Each of these is contributing in its own way to increasing impoverishment, distress or unemployment.

Consider what would have happened if your government had not committed itself to no real cuts in government spending in return for wage restraint and if instead the Government had applied the same demand restraint in the public sector as it has effectively enforced in the private - and had, at the same time, invited union leaders to exercise wage restraint in the interests of their own members so as to keep unemployment down. You are surely bound to conclude from

your own words at Blackpool that, had this happened, and had you been free to reduce government spending, then inflation would have abated further and faster than it has - as it has in other countries - and employment would be rising instead of falling - as it is in other countries - and the pound would not have plunged.

The fact is that if only government spending could be adequately reduced and the vendetta against private enterprise by you and the unions ceased, then there would be - if the transformed climate could be expected to last - such a leap in confidence and such a recovery of vitality and enterprise as would transform the employment situation and the prospects.

Trade union leaders speak with pride of their contribution and their "sacrifices"; no doubt they feel they have done well. After all you do tell them this often enough. Indeed, there is a great contribution they could make to reduce inflation, help recovery and increase employment. That contribution would be to facilitate the reduction of government spending; and to facilitate the removal of barriers to expansion.

It should not be impossible to persuade at least some trade union leaders that the present course - dictated by the conditions they laid down - is producing the opposite of what their members want. As the months go by, it will become more and more obvious that high government spending and all the other panaceas - job-protection, the lot - are producing more, not less unemployment; more, not less inflation; more, not less taxation. This may please some union leaders but it certainly won't please all of them nor all their members.

Some trades union leaders are learners too. They have come to realise, as you have come to realise, that inflation does not protect jobs but destroys them. I was late in the field myself in understanding that, and when I said it I was denounced. Now it is common ground.

Harold Wilson attacked me for saying it, but 18 months later he proclaimed it himself: "Inflation", he said, "is the mother and father of unemployment". The trades union leaders now understand this.

What they have yet to understand is that excessive Government spending is the mother and father of inflation.

Your Government may dodge and weave to avoid adequate and effective cuts in its spending - but such cuts will have to be made as the indispensable preliminary to all the processes of recovery. I hope, therefore, that you will see that the terms on which your Government secured the social contract is wrecking any hope of progress and that you should, in the interest of the entire country, explain what is necessary and do it.

1st October 1976

① I.M.F - attempt to
sell false prospects

② North Atlantic - industrial demand
of many leaders - revenue only
to the people system

③ Sum

④ For loyalty

Put with interest -