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I thought it would be helpful to send you a very brief note of the main points which came out of our discussion over dinner last week.

1. THE PROBLEM AND THE KEY TASKS

1.1 We are trying to do something that has not been done before - to make Britain face economic reality, however tough, and to do so in such a way that the Government ~~is~~^{needs} an electoral reward rather than an electoral rebuff.

1.2 If economic turnaround happens faster than expected, then we have lost nothing. It is a matter of insurance to get the necessary second five years.

1.3 We agreed that the strategy can be reduced to three central tasks - economic stabilisation, starting the development of a new trade union role (both of which require Government "toughness") and, thirdly, establishing new voting criteria to help the electorate see that we are being cruel to be kind, not being tough for its own sake.

1.4 The strategy paper now in preparation, which describes these three tasks and how to organise ourselves to carry them out, must also help to unite and educate colleagues. The strategy is very obvious to us but not fully understood or even accepted by all the colleagues. G.H. suggested I talk it through with colleagues on a one-to-one basis, as we did with Stepping-Stones.

2. STABILISATION

2.1 This is the one economic result we must be able to offer the electorate if we are to win in 1983/4. Real growth may take longer, but stability is essential.

2.2 Monetary control in a credit economy is extremely difficult. Much (fairly incomprehensible) work being done in the Treasury.

2.3 Given that the monetary levers do not work reliably, more important than ever to get public spending down, since this makes everything else easier.

2.4 My agenda paper referred to "establishing a coherent position on public sector and nationalised industry pay". By this, I did not mean a simple minded standard rate or response. I meant that it was necessary to think through the situations carefully in advance ("crisis management" in section 5 below).

2.5 We discussed gradualism versus the shock package. Shock package meant, for example, de-indexing among other things. The idea is to dramatise, ensure that everyone feels the shock (ie. it's not vindictive or discriminatory) and that we can get a number of tough things all over at once, early, while there is still time for the resulting benefits to flow over the subsequent three years.

3. TRADE UNION ROLE

3.1 The virtual absence of moderate leaders who are really moderate and really can lead means that we have to initiate further reforms which strengthen shop floor moderates against militants.

3.2 Agreed, therefore, that we are only starting with the present Bill. Need a team approach, as in STEPPING-STONES, to generate ideas and momentum. The Department of Employment will be an obstacle.

3.3 We can collect all the ammunition about the effects of union obstruction and re-launch the ~~Stepping-Stones~~ propaganda, while the development of new measures goes ahead.

4. ESTABLISH NEW VOTING CRITERIA

4.1 On the face of it a boring task but probably more difficult than the other two and just as important. The tougher we have to be to put things right, the harder we have to work to make people thank us for it. Not a simple business.

4.2 Keith mentioned the idea of senior Ministers having individual "minority welfare" interests. Also the CPS study on the Labour movement - possibly affecting the way in which political parties are financed.

5. ORGANISE TO MAKE IT HAPPEN

5.1 We talked only briefly on this. I have since discussed first steps with Keith and our report will elaborate.

5.2 We see the need for a steering group (perhaps the ~~Stepping-Stones~~ SG, give or take one or two people); with three task teams for the main tasks (not just for the union reform, as we discussed at dinner) and an initial team to develop a coherent approach to the management of problem events or crises (steel, miners, railwaymen, etc). We tried to use BL as a model for this, aiming to establish with reasonable clarity the problem, political and economic objectives, negotiating strategy, well before action is joined.

5.3 Teamwork is the key, it must involve colleagues to lead the way, selected officials, advisers, Central Office/CRD. This gives a richer mixture of brains and experience, better cohesiveness under fire. Policy Unit's contribution will be to help develop methodical approach, so that team becomes productive.

5.4 With no team approach, it will be a muddle. A team approach without method will also be a muddle. We will need teams, method and time in the diaries to think it through and work it out.

Copies go to Guppy & Keith.



JOHN Hoskyns

8 January 1980

PRIME MINISTER

THE "LONG CAMPAIGN" PAPER

Original returned 2
to J Hoskyns.

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I attach the first two short sections of the paper and a list of its contents.

I am particularly concerned about the subject of Section 3, "Stabilise the Economy". The sheer power of the process by which inflation and British-style pay bargaining erodes the industrial base and the self-indexing shambles of the public sector and public spending generally, makes mincemeat of our economic policies. It isn't just a matter of cutting expenditure but of uncoupling it from the index, so that the Government does not have a blank cheque commitment to pay, which is quite outside its control. I have commented on the indexing syndrome (eg Ezra's proposals to the NUM, the NCB's indexed-price contract with the CEEGB).

At the same time as indexing all the wrong things, Governments have had a completely closed mind on automatic valorisation, absolute commitment to indexing tax bands; there was the whole farce of funny money budgeting, Government guarantees of public utilities borrowing against the exchange rate risk and so on. We have had 15 years of mental confusion which has all but destroyed the economy.

We will make little progress until we bring the whole thing into a stable state. I gave Keith papers on this in 1977, tried to raise it during the Policy Search Team's work in the first half of 1978, touched on it again in the briefing note (of which I sent you a copy at the time) before Geoffrey Howe's "Fentiman" day in March this year.

I am glad to see that this topic is now high on the agenda, and that CPRS are looking at de-indexing. We may have to grasp some very big nettles indeed in this area. But if we do so, tackling the problem from both ends (cutting the pay-out and raising the pay-in) the big numbers could start to come right surprisingly quickly.

I have sent copies of the attached papers to Peter Thorneycroft and Angus Maude.



JOHN HOSKYNS
14 December 1979

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4. DEVELOP A NEW ROLE FOR THE TRADE UNIONS

Do we agree the nature and scale of the problem? - Objectives for trade union reform - Winning the argument - Using "problem events" as opportunities - Developing "weapons for moderation".

5. UPDATE THE TORY STEREOTYPE

Tories not yet the natural Party of Government - Demolishing class war mythology - Tories must "own the future".

6. ESTABLISH NEW VOTING CRITERIA

The democratic dilemma - Economic education, set piece and by events/experience - Crucial importance of policy coherence - Establishing Government's character and Tory values - Leadership and humanity.

7. ORGANISE TO MAKE IT HAPPEN

Determination is not enough - Agreed strategy the starting point - Method and culture in Westminster and Whitehall - Communication technique - Actions speak louder than words - Concentration of effort, organisation - Government, Party, Whitehall - Making the time to do it, a question of strategic will.

1. INTRODUCTION

- 1.1 This paper suggests a strategic framework for starting the process of economic recovery, including the winning of a second 5-year term, which is essential if that economic recovery is to take place.
- 1.2 The paper is not intended as an exhaustive shopping list of Departmental policies. It is concerned with the objectives we must achieve, rather than those we would like to achieve.
- 1.3 The paper takes the ideas originally put forward in the first paper of 12 June 1979 and the second paper of 18 July 1979, developing them in more detail, as the basis for a programme of action which will take us through to 1984.
- 1.4 An important purpose of the paper is to help those colleagues who are less directly involved in "economic turn-around", to see their own Departmental policies in the context of the Government's "must" objectives. It therefore covers ground familiar to those already closely involved. Whether or not the approach proposed is accepted, the chances of success over the next 4 years will depend to a large extent on a shared grasp of the problems we are trying to solve, and a strategic approach which is well understood and fully agreed by all colleagues.
- 1.5 Like earlier papers, the general tone is one of economic pessimism; the paper assumes that the UK problem is, at any point in time, always greater than it looks; and the chances of any Government solving it, always smaller than most people realise. The emphasis is therefore on "aiming off" to intercept the problem instead of doing, as previous Governments have done, too little, too late.

2.

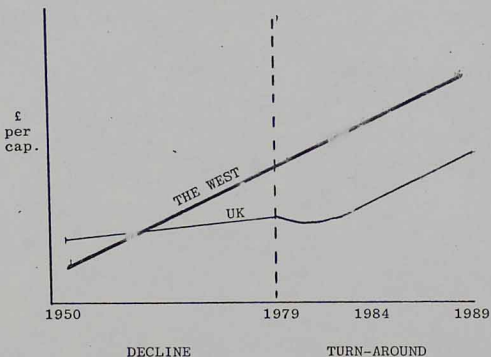
GOVERNMENT'S OBJECTIVES AND STRATEGY

2.1

The Government's objective is to set the country on a self-sustaining economic (and psychological) recovery path. Our dilemma is that it is difficult (we would say impossible) to achieve this objective quickly enough for the fruits of that achievement to help us to win the next election. We have a 5-year term, in which to achieve a 10-year task. To say that we must achieve our objective in 5 years because that is all we have got, is to ensure failure. Instead, we have to break the 5-year constraint, by pursuing a carefully thought out 4-year election campaign alongside the introduction of policies for recovery. An important part of our approach is to make the public understand this dilemma as clearly as we do ourselves.

2.2

In our first Strategy Paper, we represented the total process as an over-simplified diagram:



Since that paper, it has already become clear that the process of stabilisation will be harder, and the J-curve probably longer, than we had anticipated.

2.3 Economic recovery requires the achievement of two subsidiary objectives:

- (i) Laying the basis for the revival of the private sector, during the first 5 years.
- (ii) Winning the 1983/4 General Election, so that the private sector revival can really get started in the second 5 years.

2.4 Any democratic Government trying to arrest economic disintegration faces a familiar dilemma: the choice between popular policies or popular results. The greater the problem it has to solve, the riskier it becomes to pursue "low risk" policies. The measures needed to lay the foundations for economic revival are so rigorous that they could lose us the next Election.

2.5 Just as the original Stepping Stones paper of two years ago suggested that the union problem could be turned into an electoral opportunity, so this paper suggests ways in which tough policies may in fact be stepping stones towards winning the next Election.

2.6 These two subsidiary objectives - private sector revival and 1983/4 Election victory - require in turn the achievement of the following tasks, which are dealt with in detail in the remainder of this paper:

<u>SECTION 3</u>	STABILISE THE ECONOMY
<u>SECTION 4</u>	DEVELOP A NEW ROLE FOR THE TRADE UNIONS
<u>SECTION 5</u>	UPDATE THE TORY STEREOTYPE
<u>SECTION 6</u>	ESTABLISH NEW VOTING CRITERIA
<u>SECTION 7</u>	ORGANISE TO MAKE IT HAPPEN

This description is not compatible with rigorous criteria. Some too plain.

2.7 In addition to these tasks, we are already embarked on the "Accelerator" programme which is looking at all possible measures to speed up the recovery of the private sector, by removing obstacles to free enterprise and encouraging the start-up and growth of new and small businesses.

- 2.8' Any analysis of Britain's post-war decline soon reveals a complex network of interacting factors, sometimes cause, sometimes effect. Recovery must have the same characteristics. It will flow from a number of measures interacting together. The essence of any strategic approach is to start with the objective, the destination, and then work backwards, in time, to see what the route to that objective looks like in terms of work to be done. Once that is done, we can decide in detail who is to do what, and when.
- 2.9 This process of getting ourselves organised to pursue a coherent long-term strategy takes time. With the clock ticking away and only 4 years to go, it also requires nerve. There is a constant temptation to "launch a second front now", but past experience suggests that this simply degenerates into a series of half-cock initiatives, each of which peter out over two or three months leaving people feeling more confused and less energetic as Election year draws closer. Such an approach is clearly seen by the electorate, who are quick to sense a confused and panicky Government - exactly the opposite of what it is looking for in times of stress and strain.
- 2.10 A strategy is not a laundry list of Government policies. It is a network of measures - policies and messages - assembled into a coherent programme which will, with luck and good timing, trigger new behaviour leading to different results. We can depict this network (which is in fact the structure of this paper) as a simple diagram (see Appendix A).
- 2.11 Each task of course breaks down into many bits and pieces. But once we have such a framework, we are likely to do a little better (and a little may be the difference between long-term success and failure) in allocating our time, Departmental resources and political capital to doing what matters. The guiding principle should be "Do everything that is necessary, nothing that is not" - simple to say, difficult to do.
- The existence of such a framework also gives us a better chance of turning micro-economic problems (eg British Leyland) into political stepping stones.
- 2.12 Of course the framework and the detailed programme must be regularly modified, on the military principle that "no plan survives contact with the enemy". But that is not a reason for having no plan in the first place.

THE STRATEGIC ROUTE: 1980-1989

