

17 FEB 1981

NEWS SERVICE

Release time: 19.15 Hours/FRIDAY, 13th February, 1981.

124/81

Extract from a speech by the Rt. Hon Nigel Lawson MP (Blaby) Financial Secretary to the Treasury, speaking to Conservative Trade Unionists in Nottingham on Friday, 13th February, 1981.

The TUC are trying to make the biggest U-turn in Trade Union history. They were set up with the laudable aim of improving living standards of working people. But now they are actually asking the Government to cut the living standards of trade union members and the British people as a whole. For Len Murray has asked us to engineer a substantial devaluation of the pound. And that means a deliberate cut in the living standards of every one of us. We all learned after 1967 just how much we could rely on assurances that devaluation did not affect the pound in our pockets.

Of course, the TUC have nowhere been explicit about how Mr Murray's objective is to be achieved. That should not be surprising however. For the fact is that no economic sleight of hand, no financial wizardry on this earth, can painlessly bring about a substantial devaluation of a currency such as sterling which is floating freely on the foreign exchanges, and whose value is determined by market forces.

But let us be charitable for a moment. Let us suppose that the TUC has access to some hitherto undiscovered book of medieval witchcraft which tells us how to brew up a substantial devaluation without causing a massively inflationary explosion of the money supply.

We all know what happens next: the pound falls, there is a boost to employment and then prices rise so that we are back where we started. That has been the pattern since the War. Each expansion engineered by the Government leaves in its wake unemployment and interest rates higher than they were before.

Of course, as with most fashionable fallacies, there is a germ of truth behind the TUC's devaluation plea. That truth is that employers and employees always need to make products the markets want - and are able - to buy. Sometimes price is not the most important aspect. But often

it is. The need for competitive prices is particularly acute after the industrial fossilisation that formed such a hallmark of Labour's policy. And the strength of the pound has made it more difficult for some of our industries to compete abroad. But our ability to compete has been made so much more difficult by the wage explosion which came in the wake of the collapse of their incomes policy. This has contributed a great deal more to the problems of Britain's exporters than has the 20 per cent rise in the sterling exchange rate since the present Government took office.

The TUC's proposal for a substantial devaluation thus addresses an important problem but the wrong way. The route to international competitiveness runs not through the Treasury or the Bank of England, but through workplaces up and down the country. For it is in the hands of all those who work in industry, management and workforce alike, that the key to restoring Britain's competitive position lies. And that key consists above all of holding down costs - including wage costs - and increasing efficiency. We have lost a lot of ground in the past; but after many steps backwards towards bankruptcy, there are now clear signs that the slow and painful steps to solvency have begun.

ENDS.