

PRIME MINISTERSTRATEGY MEETING, CHEQUERS

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This minute contains some thoughts for tomorrow's discussion, and reflects the rather jittery state of some colleagues' nerves and Jim Prior's attempts to bounce us into an inflationary unemployment package.

1. OUR PRESENT SITUATION

- 1.1 In the past, we have often criticised the colleagues for under-estimating the size of the problem we're trying to tackle. This time, however, our view is rather different. In purely economic terms, we are doing better than many of them think. Despite the agonisingly slow bottoming out, the indications are that the recession is turning. The rise in unemployment is decelerating. Productivity is rising. Inflation is falling. Growth in the monetary base is only 5% or 6%. Upward pressure on our surprisingly low short interest rates is inevitable, but the ^{"Unthinkable"} Budget strategy has been fully vindicated. There is no suggestion at all of the need for a summer or autumn Budget. Sterling shows no sign of collapse and remains above its purchasing power parity. And we are weathering astronomically high US interest rates.
- 1.2 Of course two years is not long to change electoral attitudes. But two years is a long time in terms of the business cycle. The colleagues are behaving as if the Election was only six months off. If that was the case, then we would be in trouble. But it isn't the case.
- 1.3 Of course, psychology does matter (See Sam Brittan's article of 23 July). If businessmen think we might lose the Election, then they will behave accordingly. But reflation/inflation and a plummeting pound is not the way to renew business confidence! We have to review the strategy, make sure we've got it right, and then sell it both within the Cabinet and to the opinion-formers outside, as the way to save the economy and win the Election.
2. THE STRATEGY FROM NOW ON
- 2.1 We agreed at our Chequers strategy day in January that the medium-term strategy had always rested on:

- (a) Reducing inflation and inflationary expectations.
- (b) Reducing public expenditure as a percentage of GDP (which includes getting control of the nationalised industries).
- (c) Freeing-up the labour market so as to minimise transitional unemployment.

On (a), we are on course and must resist all attempts to push us off. On (b), you know that we regard Civil Service reform as the real key and this won't be possible during the present Parliament (see the Cattell letter, in yesterday's Times, attached). On the nationalised industries, again it's not a simple problem to be solved this Parliament, but CPRS (we have seen their draft report) has sensible proposals. On (c) we have failed to move fast enough because Jim has obstructed everything from trade union reform to the abolition of the Wages Councils. But the orchestration of the response to the Green Paper is bearing fruit, and Alan Walters has since produced a non-cosmetic scheme for speeding up that process.

- 2.2 The strategy from this point on does of course have to fit into tighter constraints than it would if we still had four years to go. It has to meet four conditions: it must be compatible with the financial strategy; it must ensure that inflation is still falling and unemployment is starting to fall six to nine months before the Election; it must persuade the public that we're being tough because we do care, not because we don't; and it must unite rather than divide the colleagues.
- 2.3 Given the unsolved problems of the Civil Service, nationalised industries and indexed social security, it may now prove impossible to do what we want on public spending cuts.
- 2.4 We should therefore play down further tax cuts for the present. Even if we could find room for them, they won't affect unemployment within two years; while they could easily destroy the last chance of controlling PSBR and inflation. If everything goes miraculously well and we find room for them in 1983 - well and good. But we should not try to gear our strategy to something which at the moment looks arithmetically quite impossible.

2.5 It follows that the next wage round in its effects on public spending, nationalised industry prices and unemployment, is probably the decisive factor for the next Election. Given the untackled rigidity of the labour market and the futility (certainly at this stage in the game) of any sort of freeze, we don't yet have an answer to the "how" on this, except through example in the public sector. We must think very carefully about all the different trade-offs that may be worthwhile in order to get the pay outturn right.

3. AGENDA FOR CHEQUERS

3.1 Peter Thorneycroft's paper should help us to start thinking the next two years through as carefully as possible, while there is still time. Tomorrow's session can do no more than help us to walk the course in preparation.

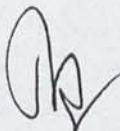
3.2 If you want a reasonably structured agenda, here are some headings which may help us to keep on track:

- (1) After Peter has introduced his paper, you could give a brief resume of where we now stand, on the lines of Section 1 ^{and also 2.1} above. I think it's important to give as much weight to the things that are not going well as to those that are. If you don't emphasise them, others may hesitate to raise them.
- (2) The key electoral groups. We need a clear picture of the different categories, eg the Tory faithful; disillusioned Tories; floaters who might be won over if we can outflank the SDP.
- (3) The key issues. CRD's opinion research on the Government's rating on the top half dozen issues. We need to classify (not necessarily now), eg:
 - issues on which actual results must show through before the Election
 - issues on which visible Government action (but not necessarily early results) is necessary
 - issues on which Manifesto pledges are needed and possible
 - issues on which Manifesto pledges could be dangerously constricting for 1984-9.

(4) Cōmmunications:

- Events (including bad news) which we can use to influence attitudes.
- Winning the "no turning back" argument, so that today's predictable nervousness is turned right round and people realise that it is "turning back" that should make them nervous, not pressing on.
- We must take every opportunity of showing the electorate how utterly different (morally, socially, economically) our objectives are from the other parties, and thus how different our means often have to be.
- How can we best counter Labour's successful campaign to depict you personally as the arch "doctrinaire monetarist" deliberately inflicting unemployment and hardship etc? (We believe that this is one of the most important tasks).
- How can we achieve and then demonstrate greater Cabinet unity? To the public, a visibly divided Cabinet suggests a divided country.

(5) Action plan. Who should be doing what, to ensure that, despite all the day-to-day pressures of office, this two-year Election programme actually happens?



JOHN HOSKYNS

ELECTORAL ISSUES

In no particular order:

1. Unemployment.
2. Inflation (nationalised industry prices, world commodity price pressures, MBC, public expenditure and public services pay).
3. Trade union reform.
4. Law and order.
5. Housing.
6. Defence, CND/anti-nuclear energy movement.
7. Europe.
8. Constitutional changes (freedom of information, the Lords, Bill of Rights, state support for political parties, contracting in, PR, referenda for single issues, local authority finance. Most of these issues will surface as the Election approaches.)
9. Government style. Qualitative aspects of Government; evidence of firmness and fairness, imagination and vigour, treating the public as adults not children, a united Government for a united Britain.

Thursday, 23 July 1981

LETTERS TO THE EDITOR

New attitudes to manning levels

From Mr G. H. B. Cattell

Sir, Last week (July 14) you reported the CBI's proposals concerning manpower reductions in the public service. You also reported Sir Leo Pliatzky's views (July 15), which were to the effect that the CBI's aspirations were unrealistic and unachievable.

It is important to our future as a free and politically stable country that people should be persuaded that the CBI's proposals are practicable. We need desperately to find new money for investment in modern public services and for the refurbishment of our dilapidated and depressed urban areas. We cannot do that if we preserve the gross overmanning which exists in the public sector. Over the last 20 years technology has advanced at a rate which causes older people to catch their breath in astonishment. The effect of this advance has been to make it possible to reduce, significantly, the number of people required for manual and office work. Yet over the same 20 year period the number of people employed in local authorities has risen by 80 per cent and in central government and public corporations, excluding nationalized industries, by over 45 per cent.

Almost all companies which are still trading in the private sector have been forced to reduce their payrolls by amounts which would have been considered inconceivable two years ago. My own company has reduced its labour force by 25 per cent in 18 months. Yet we are still trading at the same level of turnover, and although still feeling the effects of the recession, we are much more efficient and poised to take advantage of the upturn when it comes. Never again will we return to the manning levels or unit labour costs which fear of organized labour and our own complacency dictated in times now passed.

I know from my own experience as Director of Manpower and Productivity Services at the Department of Employment that the CBI is not preaching nonsense. A 10 per cent manpower reduction in our public services is easily obtainable, given the necessary management ability and will.

A further, but temporary, increase in the numbers unemployed should not deter us. By releasing large numbers of under-employed people in the public service we can also release vast funds for the re-employment of people in new enterprises, both public and private.

The preservation of unnecessary jobs prolongs the unemployment of those who could and would work in new ventures.

Would *The Times* please thunder a little in support of the brave proposition now advanced by our industrialists, who are preaching what they themselves now practise?

Yours faithfully,
G. H. B. CATTELL,
19-23 Knightsbridge, SW1.

From Mr Gordon James

Sir, We have noted with considerable anxiety the intention to relax the statutory requirement that companies employing 20 or more staff should employ three per cent disabled persons.

Whilst it is a common fact that a percentage of companies do not comply with the statutory requirement, it is our experience that most reputable companies make some effort to offer a contribution to society by employing as many disabled people as they can in a variety of jobs.

We in Arthritis Care are particularly concerned at what can only be considered a retrograde step, particularly when our prime concern is to assist arthritic sufferers to remain useful members of the community.

None of the statements supporting the intention to abolish the statute gives any valid reason for eliminating it, and at the present time, when there are many other massive drains on the economy, I consider that every effort should be made to continue gainfully to employ people who are not only anxious to make their contribution, but would otherwise be yet another, unwilling, liability on the nation.

I trust therefore no retrograde action will be taken in this matter, without full discussion, not only with industry but with the welfare bodies, such as ourselves, who are working under ever-increasing financial stress voluntarily to help a very considerable number of disabled people to continue to earn an honest living.

Yours faithfully,
GORDON JAMES, Chairman,
Arthritis Care,
6 Grosvenor Crescent, SW1.

From Mr Michael Norman

Sir, It is gratifying to see one's name in print in Britain's newspaper of record for the first time (University of Kent results, July 18). It is surely going to be decades before one has another chance of such prominence — if ever — as one swims in a sea of three million unemployed.

Yours faithfully,
MICHAEL NORMAN,
The Coach House,
Hammerwood Park,
East Grinstead,
Sussex.

Placing the cuts in university grants

From Sir Andrew Huxley, PRS

Sir, The general letter from the chairman of the University Grants Committee to vice-chancellors and principals (report, July 2) referred to advice received from, among others, the Royal Society. I believe it appropriate now to say publicly that that advice was in favour of selectivity in the distribution of the funds now being made available by government.

I and my colleagues on the Council of the Royal Society, therefore, applaud the endeavour of the UGC to support excellence and to foster important growing points. The need for greater selectivity of support within the university system has been apparent for some time, and the present cuts provide an opportunity for such selectivity.

However, in the implementation of the cuts there are risks of serious damage to several vital parts of the system and the greatest possible care and vigilance will be needed to avoid, or at least minimize, this damage. For instance, the recruitment of able young staff may dry up almost completely and this would be disastrous for research and education; special efforts will be needed to ensure a steady intake of very able young people.

The Council of the Royal Society will be monitoring the changes now taking place in the university system with special reference to the wellbeing of science, including applied science and technology, their teaching and their impact in industry. These studies will be conducted in consultation with the UGC and vice-chancellors, and the society will be in close touch with the research councils and with other sponsors of research, including industry, which provide an essential third element in the support of university research.

We shall welcome specific information about individual groups engaged in high quality scientific or technological research which become seriously threatened by the cuts.

Yours faithfully,
ANDREW HUXLEY, President,
The Royal Society,
6 Carlton House Terrace, S.W.1.
July 20.

Practical moderation

From Mr George Mikes

Sir, Nearly all the newspapers and many politicians (some with avuncular benevolence, others with irony tinged with envy) have remarked that all's very well but the time has come now when the

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