

From

THE CHAIRMAN OF THE PARTY

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POLICY UNIT PAPER

1. There is much good in this paper and one does not dissent from the analysis of issues which have to be resolved or constraints which have to be at the very least adjusted if we are to show the possibility of success in the time scale available.
2. I am however worried by the methodology. If one starts from the point of saying that the problems cannot be resolved within the existing Governmental and Whitehall structures, one, in effect, presents oneself with a vast task of institutional reform which must precede the effective tackling of the real policy needs. It seems to me to be like a "Stop the World I want to get off" approach.
3. I accept that there is much in Whitehall which might be improved, I do not however accept that there is really anything in Whitehall which would prevent a determined Cabinet getting 80 or 90 per cent of what the Prime Minister deems necessary to do. The fault lies not in structures but in political will and clear agreement on priorities.
4. There remains of course the question as to whether the political prescriptions of the paper are correct. The answer probably is that they are certainly nearer to our requirements than the existing situation. They do seem to me to blur the question as to whether we ought to vary the targets in relation to the depth of the recession, but this in a way is what Professor Walters is about. What does one then do? I do not think that one sets up a series of task forces, or recruits, or asks for a lot of outside advice. Apart from some technical improvements in the workings of monetarist policy there are no great mysteries surrounding the problems which confront us; on the contrary they are only too distressingly simple.
5. In my judgement the decisions we are faced with are political decisions and the right forum for political decisions is the Cabinet. I simply do not accept that we cannot get the Cabinet to understand the issues.

No tinkering with Whitehall, no external advisers, no outside study groups are any substitute whatever for a determined Cabinet agreed on the main lines upon which we seek to tackle the problem. Any other approach is really only a postponement of the decisions. If we fail to find a Cabinet capable of tackling these matters we fail anyway and everywhere.

6. I like the way the paper is argued. It is robust and controversial. Essentially what it says is that in so far as we have met with some success, as indeed we have, this success has been much assisted by outside events and will rapidly be eroded by powerful influences which we have in no way mitigated or harnessed, the moment these outside situations tend to disappear. If I don't accept the black despair of some of the opening passages I certainly accept that much more needs to be done.
7. I also accept that there are constraints, some real and some imaginary, which hedge us in and which both seem to preclude some effective action now, and perhaps even more importantly, effective action in a further changing world scene. I would however put my view of the problems and their presentation rather differently and propose a different course of action.
8. I would start by keeping firmly in view two different worlds, as proposed respectively by the Prime Minister and Michael Foot. Partly because they represent reality and need presenting in a comprehensible way and partly because an agreed platform for a Cabinet is needed when it is asked to take controversial decisions.

The Prime Minister

WEALTH CREATION
PERSONAL RESPONSIBILITY
FREEDOM OF CHOICE
LIMITED GOVERNMENT
STRONG DEFENCES
HIGH PRIVATE INVESTMENT
HIGH PROFITABILITY
FREE MARKET AVAILABLE
IN EUROPE
WORLD MARKET WITHIN
G.A.T.T. RULES

Michael Foot

CORPORATE STATE
GOVERNMENT AID
UNILATERAL DISARMAMENT
GOVERNMENT CONTROLS
GOVERNMENT INVESTMENT
INSULAR APPROACH
CUT OFF FROM EUROPE
IMPORT CONTROLS

9. We will win on the argument about which world but we could lose if the actual world we live in, is, in 1983, so markedly different from the one that we want that we appear incompetent to achieve our purposes.
10. I see the box in which we tend to be shut a little differently to the Policy Unit. Since I am catching the habit of putting things in boxes,

mine looks like this.

	OPEC and rising energy cost = Recession	
High cost of public sector = a starved private sector and insufficient wealth	CONSERVATIVE POLICY IS NOT WORKING	UNIONS = low productivity
	LACK OF CONFIDENCE = low investment	

I see then the issues, some resolvable, others only partially resolvable or not at all, as follows. I would emphasise that whatever else happens we must at least be seen to know what the issues are and be trying to do something about them.

1) Energy and its price. I consider our major problem to lie in the field of the Foreign Secretary/Secretary for Energy, rather than the Treasury. It is the oil price induced world recession that dominates our economic climate. It is this recession rather than any economic measures here that is responsible for our high levels of unemployment. It is the price level of oil which helps to augment the value of our currency and it is the slump in world markets that makes the necessary application of monetary techniques essential to control inflation, difficult to explain in politically acceptable terms.

I have no doubt that the problem of OPEC has been much discussed in Cabinet, but we need to rehearse again the arguments, the courses open to us, the price we might have to pay to achieve altered policies, the nature of our approach, whether individually as separate nations, or collectively, to an increasingly alarming scene. We have to explain publicly how OPEC decisions reflect upon the levels of employment here. OPEC is central both to our economic and our presentational problems. It may be insoluble but even a public attempt to solve it, even a public presentation of its reality might be better than a discreet and unhelpful silence.

2) Men at the place of work. Our second major problem lies in the attitude of some, though by no means all, Trade Unions in limited but vital areas of the economy. On balance a Trade Union policy of moderation at a time when unemployment is over two million has probably paid off but Trade Union attitudes in a recovering economy might be a very different thing. The

problem is less one of wages and much more one of productivity and restrictive practice.

The productivity of most of our manufacturing units is markedly below that of our competitors. A solution or even a partial solution to this problem is much more important than any other single item of Trade Union reform. It is linked with our archaic system of wage negotiations in both the private and the public sector. An understanding with the Unions in which we left the wider fields of Trade Union reform alone in return for the restoration to management of the power to manage their factories and the introduction of a modernised wage negotiation system would be a very worthwhile achievement.

3) The Public Sector. The public sector, together with its pay and its indexation problems, represents an almost insupportable burden on the private sector. This public sector now represents a voting strength of formidable proportions and may already have reached, or be about to reach a self-perpetuating condition. It generates a Public Sector borrowing requirement of insupportable proportions, it absorbs a vast tax revenue, it pushes up interest rates and increases the inflationary momentum. All major items in this area are sacred cows but we may have to choose between losing the next election with two billion in B.L., X million in Trident, Y million in indexed pensions, or winning it without one or other of these burdens. Whatever our choice is, it were better made fairly soon for we have surely about reached the limit at paring round the edges of this problem. We still just have time to recover from the shock of major surgery if we wish to adopt it.

4. Investment. Depends on CONFIDENCE. What we need is a climate in this country which attracts new investment from abroad as well as at home, designed to exploit a growing world, and importantly, a growing European Market. We need to sell the whole of the U.K. as an investment base with the same energy that we sell a few selected parts of it. With two million unemployed there is certainly scope for such a policy. We need to demonstrate and adjust policy as necessary to do so. We have, or can have, some powerful selling lines, e.g.:

Self sufficient in Energy.

Attractively low tax levels.

Provision of medium term credit on attractive terms.

Declining interest rates.

Low energy prices.

Absence of Government controls.

Speeded up planning decisions.

Free run at European Market.

Not all this is true but it could be made so and sold as such,
and is the direct opposite of what Labour seeks to do.

11. How Do We Proceed

I think that we need first to publicise the good things that have happened or are happening. How many new jobs created every day? New businesses started. Inflation down. Exports won. Trading account in balance. Even pound strong. This is not the picture of a nation on its uppers.

I think we then want to take each of the four major constraints, OPEC, UNIONS, INVESTMENT, PUBLIC SECTOR, reduce the major options within them to the simplest and briefest terms, and let the Prime Minister seek agreement with her closest colleagues on a package dealing with them. I recognise that the package will be in part for real and in part presentational. We shall however at least be thinking and talking about the real world, we shall be discussing thoughts and themes markedly different from our opponents and we will be seen to be looking at the world in more positive and practical terms than we are perhaps judged to be at present.

12. Some paper of this type needs to be put to Cabinet. We are seen as a party which has been fighting, not altogether unsuccessfully, for sound money. We must continue to do so. But we need much more than buffed up monetary techniques to secure the Prime Minister's basic requirements, and we need much more success much quicker if we are going to hold an adequate majority in 1983/84. I'm for leaving everything else alone, including Whitehall reforms, and going for these main objectives.

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