



FROM: THE RT.HON. SIR KEITH JOSEPH, Bt. MP.

KJ/SMC

Lord Thorneycroft.

29th August 1978

[Signature]

I am planning to make the attached three speeches during the days between Jim Prior's unemployment seminar and the opening of the TUC Conference. You will see that Speech A is entitled "Wasteful Spending Kills Jobs - Cuts Save Them" and is an aggressive answer to the charge that Tory policy will increase unemployment.

Speech B is called "Do Job Rescues Rescue Jobs?" and puts the argument that they do not.

And Speech C is called "Jim Callaghan the Job-Killer" and will be made on Monday, 4th September. Each speech is short.

I venture to send the three to you because I have tried in the speeches to set out arguments which may be useful, either as they are or improved, to candidates and because they are attacking rather than defensive.

I am sending a copy of this letter and of the three speeches to Margaret's office and to Angus Maude, and to Chris Patten. *7 copies to Jim Prior*

C.c.

Private Office of the Leader of the Opposition

Angus Maude Esq., MP,

Chris Patten

Pre-Election Speech - A

30th August 1978

"WASTEFUL SPENDING KILLS JOBS - CUTS SAVE THEM"

The Labour Party is trying to divert attention from the unemployment which its policies have created by claiming that Tory pledges to cut government spending will reduce jobs. In this respect it resembles a man who shouts 'Thief' in order to distract attention from its own hand in the till. Labour's claim is, of course, nonsense.

The wasteful public spending that we are pledged to cut has been paid for by higher taxes, additional borrowing and printing. In other words, the government has been reducing personal spending in order to spend more itself. The jobs provided by its spending therefore are likely to be equal in number to those it has destroyed by its reduction of private spending.

What it gives with one hand it takes with the other. And since the jobs provided by public expenditure are often non-productive jobs, while the jobs which it destroys are productive ones, this is an exchange which makes us worse off.



So in fact the Tory aim to cut wasteful public spending in ^{money} order to cut taxing, borrowing and printing/will improve employment prospects, not worsen them. Public profligacy and waste is the enemy, not the ally, of full employment.

If you think this mere theory, then consider what happened only in the last two years. In 1976, the IMF insisted that the government cut public spending by several billion £s a year. Ministers beat their breasts in well advertised displays of agony. There would be a huge rise in unemployment, it was said, and output would drop sharply while inflation rose. In the end, because the IMF insisted upon it as a condition of their help, the government gave way and the cuts were made. What happened? A small rise in unemployment which soon reversed: reducing unemployment for a whole year: a rise in output: and a fall in inflation.

Alas, they have now reversed their policies again and have raised public spending while, at the same time, cutting taxes with the risk of having to borrow and print more. They have engineered a short-lived pre-election consumer boom. The result ~~of all that~~ ^{is} inflation and unemployment are both now tending to rise again.


But, nevertheless, a demonstration did take place: public spending was cut - and unemployment did, after a short, small rise, fall steadily month after month for a whole year while the cuts ^{were} ~~lasted~~.

Pre-Election Speech B

30th August 1978

"DO JOB RESCUES RESCUE JOBS?"

Mr. Callaghan and his colleagues constantly claim to have rescued several hundred thousand jobs by subsidies. They confess that such measures are only "palliatives" but, they say, unemployment would be that much higher but for their action. This claim is false, for two reasons.



First, ~~there~~ are certainly rescuing some identified jobs - but only at the expense of unidentified other jobs - which are "displaced" either in rival firms which are unsubsidised or elsewhere in the economy, where they carry the cost of financing the subsidies.

These subsidies have to be paid for. They are paid for by higher taxation or higher borrowing or more printing than would otherwise take place. Any combination of these expedients reduces buying power and destroys jobs. You cannot save Peter without sacking Paul, and possibly Paul's mate or assistant as well.

The analysis here - that job-rescues destroy jobs - is not merely mine. Ministers may be coy about admitting the real extent of the job losses caused by job-rescue. But here is Christopher Tugendhat, one of the European Commissioners, speaking in Strasbourg on 16th February 1978:

"Reliable British sources estimate the displacement effect of the Temporary Employment Subsidy at some 50%, that is to say for every 2 jobs kept alive, 1 job will be lost or not created in non-recipient firms."

And that only takes into account the displacement effect of firms which don't receive the subsidy. It ignores the loss of jobs that result from the reduction of purchasing power caused by the higher taxes, higher ^{interest} ~~inflation~~ rates and/or higher inflation involved in paying for the job subsidy.

It is no answer to claim - as Labour does - that but for the rescues public spending would increase because unemployment benefit and lost tax revenue would cost more than the rescues. That argument begs the very question of whether, in fact, the rescues do reduce net unemployment after taking into account the jobs lost. Not all people who leave jobs are eligible for benefit. And, further, the average duration of benefit, when it is paid, is significantly less than the average duration of job subsidies.

Pre-Election Speech C

30th August 1978

JIM CALLAGHAN THE JOB-KILLER

Mr. Callaghan and his government have either destroyed or prevented coming into existence vastly more jobs than they even claim to have rescued or created. They are job destroyers on a massive scale.

Yesterday I explained how the process of job 'rescue' destroys large numbers of other jobs, probably at least as many jobs destroyed as are rescued.

Today I assert that far exceeding even the number of jobs that they claim to have rescued is the number of jobs destroyed or inhibited by their policies, the jobs that would have been, but for Mr. Callaghan's government.

/ . . .

has been

What / happening is that government and its agencies have been spending too much of the nation's income. Their over-spending forces them not only to tax heavily but also to borrow heavily - and that puts interest rates up.

to the public sector

Government spending sucks in/labour and resources at prices that industry and commerce cannot afford. At the same time the cumulative effect on business of high interest rates, inflation, very high personal taxation, pay controls, price and dividend controls, and the impact of such legislation as the Employment Protection Act and a torrent of regulations, is to create a climate in which business is both crowded out and discouraged. As a result many jobs are destroyed and enterprise is discouraged from starting new firms or expanding existing ones.

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Pre-Election Speech C

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The biggest possible job-creation exercise would be to allow ^{to a representative,} those people who
and drive
have the necessary skill / to start and run businesses, to keep more of the
rewards than now if they succeed. Yet this is precisely what Labour refuse
to do. They recommend a Knighthood for Freddie Laker, but there are thousands
of little Lakers who would start new businesses or expand existing ones if only taxes
were cut to make the risk and trouble worthwhile, and controls and regulations
were eased. The people who can create jobs want a better reward in wealth for the
real risks involved. This is what Labour grudges. Labour realise that
some people, who would create jobs, might become wealthy. And they seem to
hate wealth more than they hate unemployment.

I do not accept that Britain has less natural enterprise than other countries.

Enterprise is throttled here before birth - by controls and regulations and high taxes.
Socialism and
/ enterprise are incompatible; so are Socialism and full employment.

/ . . .

TES may have rescued - and destroyed - 300,000 jobs - destroyed 300,000 in order to rescue 300,000 - but Labour policy has aborted or destroyed a vastly larger number of jobs that could have been.

Mr. Callaghan is a job-destroyer on a far bigger scale than he is a job-rescuer. He is a job-stifler, a job-smotherer, a job-preventer, a job-inhibitor, a job-stopper. For job-prevention, Callaghan's the man - and Labour the ticket.

Judging by past form, if Mr. Callaghan reads reports of this speech he will pass off these remarks with his pantomime of complacency.

One can picture him saying : "Ho, ho. Here's a rum tale. Here's Keith Joseph, accusing me Jim Callaghan, the biggest subsidiser of all time, of actually destroying jobs."

Well, his mirth will be justified if he can explain why it is that despite all his big spending unemployment, however measured, is worse than at any time since the thirties and why virtually all economists of whatever school believe that if present policies are persisted with it will get substantially worse still.

Mr. Callaghan cannot escape by claiming that unemployment would be even worse to-day but for his job rescues, etc., unless he answers the argument I presented yesterday - that the money for job-rescues comes from ^{increased} taxes, borrowing or printing

- and that this reduces purchasing power and, therefore, jobs, and that job-displacement in unsubsidised competitors costs jobs also.

It would be unfair to say that Mr. Callaghan personally wishes to destroy or to inhibit jobs. I am saying that the policies he follows, the policies that the Labour Party is bound to follow until it accepts free enterprise whole-heartedly and drops its class war, Marxist trends, are bound to create unemployment.

Labour cannot, cannot return to fuller, let alone full, employment because they are not allowed, by their understanding or their philosophy, to recognise, let alone encourage, the energies and ambitions that lead to fuller employment.