Contribution from Sir Keith Joseph.

1. We have gone through a substantial part of the reduction of the overmanning accumulated over recent decades - not all but a substantial part: if it had not been done now many more whole firms and industries would have gone out of existence because they would have remained hopelessly uncompetitive.

2. The reduction of overmanning should have taken place less sharply over the years but Labour governments postponed and postponed it. The oil price increase and a world recession precipitated it.

3. As firms continue to become less uncompetitive and the stock cycle reverses itself - and restocking takes the place of destocking - and even more as world trade turns up, demand will increase.

4. The degree to which increased demand leads to more jobs in expanding firms which have become less uncompetitive and in new firms and even in some parts of the public sector, depends upon the degree to which earnings are moderated.

5. There is no lack of demand even now. World trade may not have risen as it did; there may be fierce competition; but there is still huge demand overseas. Profit may be small but at least in most cases there is a contribution to overheads - and we are doing relatively well in exports.

6. But demand is not limited to exports. This year the Chancellor's middle-term financial strategy provides for an 8%

/increase

increase in the money stock: translated into demand this implies an increase in spending power at home this year of something like £15 billion.

(check this: assumptions for checking. M3 = £60 billion: 8% of £60 billion is about £5 billion: multiplied by V which is about 3 = £15 billion)

7. If there were no price increases - and price increases mainly, though not entirely, reflect pay increases - and after allowing for increases in social benefits - that would allow an increase in output of 6 - 7%. ~~A mass of~~ New jobs would be created in existing firms with larger markets because they had become less uncompetitive and in new firms.

8. But, of course, there will be price increases, mainly reflecting pay increases. If those pay increases are on average modest then they will ~~be~~ leave room for growth and for new jobs. The increased money will go in part as extra pay to those in work and in part to those on benefits as extra benefit and in part be left as profit in companies. To the degree that it is left in the companies as profit - and there is virtually no profit now in manufacturing because over the years unions and their pay claims have raided it out of existence - investment and expansion and new jobs will materialise.

9. That extra £15 billion is already in circulation or will be this year. It is enough to provide modest extra pay and benefits, modest extra profits and many new real jobs.

10. All depends - as employment virtually always does depend - upon good sense and moderation in pay claims. Most economists accept this but most of those that accept it flinch from saying so.

11. The growth of the money supply - less than the rate of inflation - that produces this huge extra demand of £15 billion over the year is taken into account in our aims for gradually declining interest rates and inflation rates.

12. If a greater increase of money supply is suggested then those proposing it have to accept that the results would be an increase in interest rates and in inflationary prospects and a greater fall in the exchange rate than there would be otherwise.

13. If anything like Mr Foot's proposals were brought in then the pound would plunge and inflation and interest rates would rocket. It is no use pretending that re-imposing exchange controls would help. Look at 1976. There were exchange controls then yet the pound plunged. And if the pound plunges with consequent increases in interest rates and in inflationary expectations, then there is more havoc to jobs.

14. As for the Labour/TUC concordat, it is dishonest. The unions will not agree to incomes policy. Price control while earnings soar would bankrupt companies wholesale.

15. The fact that there is spare capacity does not mean that we can let demand rip. Wage increases are only held back by enormous efforts of management. The moment the pressure of limited monetary growth

/is relaxed

is relaxed the pent-up pressure for higher earnings would break through despite the spare capacity - because inflationary expectations are still high for we are still spending too much, and because unions have taught folly for so long.

16. The extra demand can be there within our present plans if only unions don't devour all the extra money in circulation but leave what is necessary for beneficiaries and as much as possible for companies to be translated by them into more jobs,in investment and expansion and new activities and new company formation.