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TEXT OF AN OPEN LETTER FROM THE RT. HON. SIR GEOFFREY HOWE QC MP(EAST SURREY), SHADOW CHANCELLOR OF THE EXCHEQUER, TO THE CHAIRMAN OF TRADE UNION ADVISORY COMMITTEE OF THE EAST SURREY CONSERVATIVE ASSOCIATION.

At this stage of the long, and so far unsuccessful, fight against inflation, it may be helpful to set out some of the principles that must be kept very clearly in mind.

#### Long slog to beat inflation

Inflation does such grave damage to our social and economic fabric that its conquest must remain the most important objective of any Government. As must now be very clear, this will be a long hard task.

The problem will not be solved by any coup de theatre - certainly not by an enthusiastic embrace of "free collective bargaining", if that is taken to mean reversion to an irresponsible "free-for-all".

Nor will the problem go away upon a change of Government.

Replacement of the present discredited administration would certainly improve the nation's chances of success. For many of the policies which we put forward for the improvement of incentives to investment, enterprise and hard work will improve our chances of reducing unemployment, the other twin evil.

And the present Chancellor, as he has admitted, has to overcome a great credibility gap in persuading trade unionists who feel that they have been seriously misled in the last two years.

#### Common Ground

Even so, it is the present Chancellor who now faces the awesome task. And that same difficulty could, at any stage, become the responsibility of our Party.

That is why it is important to define the imperatives from which no Government can escape. For Government, of either Party, is entitled to look within the House of Commons for wide support for policies that are well designed to grapple with this fearful problem.

#### Long-term objectives

It is now widely agreed that inflation is at heart a monetary process and that it is essential maintain firm control of the rate of growth of the money supply.

Experience has made it almost equally clear that it is not possible, even if it was desirable, to replace the basic market mechanism for determining relative pay and prices without doing increasing damage to economic efficiency. It is damaging to distort this process in pursuit of social objectives which should be achieved, if at all, through the tax and subsidy system.

The case for longterm regulation of relative incomes now has few supporters. And even they recognise that the present is hardly the ideal time to establish such a system. The large majority of the present, or any future, House of Commons, would wish to see us return, as soon as possible, to a system of pay negotiation that is free from direct intervention.

If this objective is to be achieved, then all those who play any part in making it work must understand and accept its intrinsic discipline. If the supply of money is properly controlled, then pay can only rise above an economically justifiable level at the cost of higher unemployment. It must be clearly understood that the prospect of higher pay is directly linked to the financial viability of each employing unit. Responsible voluntary pay restraint is an inescapable consequence of this.

#### The present position

If it would be difficult at the present time to establish a "permanent incomes policy", it will be almost equally difficult to return to a system that is free from direct intervention.

Inflation, and inflationary expectations, are high. The labour market has been severely distorted by the interventions that have already taken place. The removal of such distortions and the return to properly informed and responsible pay negotiation, at a time when living standards are likely to fall and unemployment is likely to rise, will stretch almost to the limit the effectiveness of our system of government, and the essential unity of our society.

It is now generally recognised that we need to unwind the consequences of pressing too far the case for equality of reward. The destruction of differentials is the cause of much of the current strife.

But the more the case for flexibility in the opposite direction is accepted, the stronger becomes the case for voluntary widespread self-restraint. For the nation's resources will not allow a general rise in living standards.

A Government and a Party that has preached the case for equality will have great difficulty in securing acceptance of the opposite case - at a time when average living standards are still falling.

## The Way Ahead

Government must accept its essential duty to persuade those who can deploy collective power to understand and accept Government's determination to maintain control of the money supply and not itself to create inflation.

Understanding of this proposition is essential. But the pursuit of such understanding must not give any exclusive bargaining rights to any selected groups of people or interests. Nor should it involve the pursuit of any narrow social or political objectives, which are properly attainable only through the parliamentary process.

Government has a special responsibility for the establishment of acceptable bargaining arrangements in those areas where it is itself an employer. On behalf of the entire community, Government must here set limits to the cash that is available and devise bargaining arrangements that are compatible with this.

## Another Formula

Is there, against such a background, any value in the pursuit of any formula or set of rules of general application?

It must be clearly recognised that any such rigid concept will inevitably be in conflict with the restoration of responsible voluntary restraint, of the kind that is fundamental to a system of pay negotiations that is free from direct control. It can only be a second best. But a second best can sometimes be acceptable.

Certainly there needs to be understanding that there is a limit on the total increase in pay that the nation's economy can afford. Equally certainly it would now be unthinkable to translate that limit into any individual flat-rate figure. This would only compound our difficulties.

Any attempt to spell out the limits in terms involving a maximum percentage for every individual also involves great difficulty. A maximum figure that was high enough to promote restoration of differentials would certainly be too high if it came to be regarded, as is very likely, as a maximum entitlement.

One is thus driven to the conclusion that any limit would have to be studied as applicable to a pay bargaining unit, whether that was defined in terms of company, plant or pay group. Such a limit becomes increasingly difficult to enforce. And such a limit, in the nation's present economic condition, must perforce be very low

### Object of the Exercise

The difficulty of achieving such an objective, itself of limited validity, underlines the importance of the basic understanding of the need for voluntary self-restraint.

This message conforms with the facts of life in the private sector, where the perceived lack of resources, even the threat of bankruptcy, remains a credible discipline. Even then there will be stress and strain because some enterprises can properly afford and need to pay more than others.

The most important task of Government is in relation to payment in the public sector. It is here that total cash limits must be established and maintained with real determination. Perhaps the best case for any formula is to secure the consequences of that imperative.

### Other important businesses

The process of adjustment that has now to be faced after some years of egalitarian restriction will require us to tackle other important tasks.

The most pressing of these is improvement of our machinery for collective bargaining. Little has been done to change this since the Donovan Commission displayed its shortcomings almost a decade ago. And successive pay policies have contributed to its further decay. The year ahead will have to be devoted to work on this subject.

The great difficulties which are immediately in prospect need to be lightened by the adoption of policies which will offer real hope of renewed progress towards greater prosperity. This is the importance of the other policies commended by our Party for the encouragement of investment and enterprise, for the reward of hard work and skill, which can be the only foundation of the creation of fresh and lasting employment prospects.

In short, to achieve the understanding that is necessary - not a deal - we need a new approach, which means a new government. The requirement is not for a Stage 3 from the same mould as the disastrous Stages 1 and 2.

The conventional assumption that it needs a Labour Government to see us through the next pay round is daily crumbling before our eyes.