

SUBJECT *at York*

PRIVATE AND CONFIDENTIAL



*AMH*  
*25/2*

NOTE OF LIAISON COMMITTEE MEETING ON 24 FEBRUARY 1982

Present: ✓ Prime Minister  
Lord President of the Council  
Chairman of the Party  
Secretary of State for Scotland  
Chief Secretary  
Secretary of State for Employment  
Mr Wakeham (Parliamentary Under Secretary of State  
for Industry)  
Mr Cropper (Conservative Research Department)  
Prime Minister's Chief Press Secretary  
Mr Lilley (Conservative Research Department)  
Mr Ward (Lord President of the Council's Office)

The Committee had before it a report on the presentation of economic, employment and industrial policy. The Committee warmly welcomed the report and agreed that it was a valuable and comprehensive analysis. In discussion the following detailed points were raised.

a) The report did not mention the position on the balance of payments, where there was a good story to tell.

b) The section in Part II on small businesses could with advantage be expanded. Small businessmen, more than most, were pre-occupied with their immediate worries - eg local authority rates - and tended to be insufficiently aware of the wider benefits accruing from the Government's strategy. It was important that the presentational approach in this policy area should be couched in language which small businessmen understood and was responsive to their anxieties.





c) The paper did not explicitly address the question of how to present the Government's approach to the private sector generally. It would be valuable to include in Part II a section headed "Policy for Industry and Commerce" which would re-state the key role of the private sector within Government economic strategy, and the way in which the strategy was designed to help. Important points under this heading would be counter-inflationary policy; the Government's measures to help reduce interest rates; and the steps the Government was taking to help clear the blockages which were inhibiting the private sector.

d) The general point was made that it was important, if the electorate was to understand the Government's strategy more clearly, to influence selected financial and political commentators in the Government's support; and that for this group of opinion makers an especially convincing presentation was required.

Mr Lilley was invited to amend the paper in the light of discussion and re-present it at the Committee's next meeting.

2. The Committee discussed how the paper might best be used. The following points were made in discussion:

a) It would be helpful to all Ministers to have copies of this, and subsequent such papers, to assist them both in setting the broader context within which to present Departmental policies, and in wider re-statement of Government policy. The papers would be particularly valuable as source material for Ministerial speeches. The Lord President of the Council would arrange for the final version of this first report, and subsequent reports, to be circulated to Ministers for this purpose.

b) The Prime Minister said she hoped to draw on the material presented in this paper in preparing her speech for the Central Council meeting in Harrogate.





c) It would be important to make an early start, drawing on the report, on establishing the presentational context in which the Budget would be set. Mr Ingham would draw up a list, for the next meeting of the Committee, of those leader writers and other correspondents with whom the material in the paper could be best deployed by individual Ministers. Thereafter Ministerial members of the Committee would each arrange to see a few selected correspondents to brief them on this basis.

d) At no stage should the existence of the Liaison Committee be made known and all references to this Committee must be deleted from material circulated to other Ministers.

3. The Committee considered Mr Ingham's diary of events. The Committee noted that the immediate presentational climate would inevitably be dominated by the Budget; and thereafter, a major interest would be the imminence of the trades union conference season. The Committee would therefore need at future meetings to decide the presentational themes which the Government and Party should stress in order to keep the initiative during the conference period. It would be valuable to have a major Ministerial speech on education in advance of the teachers' trades union conferences. Later, the Committee would wish to turn its attention to the themes which should be emphasised in the run up to the local elections on 6 May.

4. The Committee briefly discussed the themes for forthcoming Conservative Central Office briefing notes. It was noted that the current week's note would deal with gas prices. The subsequent note was envisaged as following the theme of the Prime Minister's speech to the EEF as part of the presentational preparation for the Budget.

5. The Prime Minister reported that she had spoken to Mr Stanley and commissioned the paper on housing which the Committee had, at its last meeting, wished to see prepared. The paper would be ready for the Committee in a fortnight. The Secretary of State for Scotland reported that work was well advanced on the paper on law and order commissioned at the Committee's previous meeting.



PRIVATE AND CONFIDENTIAL



6. The next meeting would be held at No. 10 at 11.00 am on Wednesday 3 March. The main business of the meeting would be firstly to finalise the report on the presentation of economic employment and industrial policy; and secondly to consider the first draft of the report on law and order.

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SECRET

REPORT TO LIAISON COMMITTEE  
ON PRESENTATION OF  
ECONOMIC, EMPLOYMENT AND INDUSTRIAL POLICY

PART I - PERCEPTIONS AND PRESENTATION

Summary of Public Perceptions Versus the Facts and Policies (A fuller analysis is given in Part II).

1. Few voters have a clear view of the government's overall economic strategy, its objectives and how it is meant to work. On the other hand, the government's and Prime Minister's sense of purpose is widely recognised and respected. This underlying strength can only be exploited as the electorate's weak understanding of our goals is remedied and they see the first signs of progress towards them.
2. Misconceptions about unemployment are particularly damaging. About half the voters think the government is deliberately making unemployment high to curb union pay demands. Few voters could think of any government measures which were intended and likely to help cure unemployment - at least before the Employment Bill and Training Initiative.
3. Few people see inflation and unemployment as alternatives. In this their perceptions are closer to the government's view than to its critics'. Voters want both unemployment and reflation to be tackled simultaneously. Even fewer people perceive the connection between prices, money and borrowing - but they approve of measures to reduce government borrowing, even higher taxes.
4. Trades union reform is potentially the most popular and credible element of our policy. Not only does a large majority support steps in that direction, even some of those hostile to it believe union reforms will help reduce inflation and unemployment. It is important that the union measures do not become seen, jointly with unemployment, as an attack on the working class.
5. Nationalisation has long been unpopular but until recently privatisation was not recognised as an option and has not yet had time to acquire much positive electoral support. Some see privatisation as part of the sterile ding-dong between Labour and Conservative. They do not recognise that in fact no major industry was returned to private ownership between 1951 and 1981.
6. Investment is universally thought a 'good thing' of which there is too little. The substantial increase in investment by nationalised industries after five years of decline is not publicly appreciated. Most people think private investment is inadequate and falling. Few realise that private sector investment reached an all time record level in 1980 or that an increase is likely this year.
7. A majority probably think national output is falling despite the predominantly rising trend since last spring.
8. Too few are aware how closely our problems and solutions, are being mirrored abroad: that unemployment is now rising faster in Germany than inflation is worse in the rest of Europe than in the UK and that many countries plagued with budgetary problems similar to ours are cutting even items of welfare spending like pensions and health which the British government has protected.



## PRESENTATIONAL APPROACH

- (i) Presentation of our strategy was bound to be very difficult in the first phase of government. Many of the measures necessary were initially painful, their potential benefits lay in the future, and the causal relationship between the measures and their eventual benefits was not always initially obvious or easily explained.
- (ii) Now it is vital to convince people that we have a strategy and that it will in due course deliver the goods. Since many of our policies are now embodied in law or government actions, and some are showing their first fruits, it should become easier to 'sell' the strategy convincingly.
- (iii) Many of the misconceptions about our objectives have arisen to fill the vacuum left by failure to appreciate what government strategy is. As we succeed in presenting it effectively those illusions will be dispelled. But some are sufficiently deep-rooted to require a specific effort to dispel them.
- (iv) The Presentational Framework
  - (a) Our objective is to reverse the long term decline in:-
    - the relative living standards of the British people,
    - the value of our currency,
    - the competitiveness of our industry,
    - and, eventually, the number of viable jobs.
  - (b) This decline has come about because in the past British governments shrank from tackling fundamental long term problems and exacerbated them by:
    - subsidising resistance to change (directly and through a falling £)
    - short-lived consumer booms to purchase popularity at the expense of savings, investment in the future and the value of the £.
  - (c) We are tackling the fundamental long term problems of the British economy which other governments shrank from e.g.:
    - trades union immunities,
    - uncompetitive and overmanned nationalised industries,
    - the burden of borrowing and foreign debt,
    - inflation,
    - training,
    - obstacles to new business.
  - (d) The task of tackling these problems was made more difficult by the recession.
  - (e) The blame for much of the tragic rise in unemployment lies with
    - those who encouraged overmanning or resisted changes in working methods until enterprises were on the brink of collapse and faced with the grim choice between shedding large numbers of workers or losing them all in bankruptcy.



- those who, verbally or through previous bursts of inflationary spending, incited wage claims which could only have been financed by another round of accelerating inflation.

(f) The government is doing all it can to alleviate the short-term unemployment problem without aggravating the longer term problem and where possible (e.g the Training Initiative), to make a permanent contribution to employment prospects.

- YOPS, TOPS etc.

The government is planning to spend £4 billion on training by 1984 - not the mark of an 'uncaring' government.

(g) There are no simple, cheap, quick, safe ways of curing unemployment. If there were the government would have implemented them not only for humanitarian reasons but also from electoral self-interest.

(h) The most frequently canvassed 'easy' option is some sort of reflation (i.e. pumping more money into circulation). In the past this never produced more than a temporary alleviation of the problem - which on every occasion gave way to increased unemployment.

Nowadays those involved in foreign exchange markets, financial markets and in negotiating wages have learned that reflation begets inflation. As a result a reflationary package would, as soon as announced, almost certainly result in a foreign exchange crisis, devaluation, rising living costs and a wage explosion. This would abort any economic recovery before it had generated any new jobs and probably intensify the squeeze. That is why virtually every major government in the world has abandoned reflation as an option.

(i) The government believes that it will be possible permanently to reverse the trend in unemployment (which has been upward for two decades) and to bring unemployment down to levels reflecting normal job changes.

But a long term up trend can only be reversed by the sort of fundamental measures which the government is taking. These inevitably take a long time to work.

(j) The deliberate creation of unemployment plays no part in the government's strategy as our opponents allege. It would be politically suicidal as well as wicked.

The idea that unemployment is necessary to curb wage increases is the reverse of the truth. The reason the government wants wage increases to moderate is to stop people being priced out of jobs.

(k) The preconditions of curing unemployment and restoring prosperity are:

- curbing inflation and
- improving productivity and competitiveness.



- (l) The first unmistakable signs of success on both inflation and productivity are becoming apparent.
- Inflation is down to half its last peak level and is expected to fall further. Many forecasters believe that for the first time since the war this government will bring inflation over the life of the parliament below the level experienced under its predecessor. We are on the path back to sound money.
  - Productivity per man rose last year at Japanese rates and evidence abounds of improvements in competitiveness, development of new products, changed attitudes at work, success in export markets.
- (m) The adjustment required in the private sector has been aggravated by the burden of the public sector which has been slower to adapt because of lack of competition and reliance on public funds. Hence:
- increasing emphasis on measures to bring more competition and private ownership into nationalised industries,
  - the support given to top class management in rationalising BSC, BL, BA etc.,
  - the slimming down of the civil service so that by 1984 it will be the lowest since 1948.
- (n) The government's aim is not, as often portrayed, the negative one of reducing the public sector, but the positive one of expanding the private sector. Every pound less spent by government is a pound more spent by the private individual.
- (o) The measures which will help bring unemployment down in the long term will also:-
- improve living standards,
  - enable us to improve the quality of our social services,
  - increase people's freedom of choice,
  - reduce political interference in people's lives,
  - spread more widely the freedom and responsibility which come from private property ownership.



## MAIN FALLACIES, MISUNDERSTANDINGS AND POSITIVE POINTS

Our communications effort needs, among other things, to concentrate on dispelling the following fallacies and misconceptions and promoting the following positive points.

CRD should produce succinct guidance notes on each point.

### Fallacies

1. Reflation - that extra borrowing or more money can painlessly reduce unemployment without sparking off a worse cycle of inflation and unemployment.
2. That money spent on the unemployed could be used to create jobs with minimal cost to the budget.
3. That interest rates are set purely by world or US forces and not much affected by the PSBR.

### Misunderstandings

1. That we are deliberately creating unemployment to curb wage increases.
2. That nationalised industry investment is being curbed and private sector investment depressed.
3. That privatisation is not a fresh approach but a regular feature of adversary politics.

### Positive Points

1. That we are the only party/government prepared to tackle the fundamental problems which have hamstrung the UK economy.
2. That inflation is now set on a decelerating trend after increasing in each previous Parliament.
3. That all our actions, not least the battle against inflation, are designed to create the conditions for a return to sustainable high employment and prosperity.



## PART II: THE VOTER'S PERCEPTIONS VERSUS THE FACTS

These notes mainly single out areas where perceptions are unfavourable to us, mistaken and need dispelling. Where appropriate we analyse

- first, perceptions of trends or developments in the relevant aspect of the economic situation e.g. what people think is happening to the level of unemployment.
- second, perceptions of the causes e.g. what causes unemployment.
- third, perceptions of the policies e.g. what people think government ought to do or is doing.

Alongside this we contrast the 'facts' or more rigorous interpretations of trends, causes and policies.

Polling data are drawn from a variety of CRD and published studies notably: "Public Understanding of Economic Affairs", Marplan May 81; "Survey on Unemployment," ORC, March 81; "Attitudes Towards Unions", MORI, Nov 81; Tracking Studies Jan 82.

### UNEMPLOYMENT - Perceptions

Trends: Overwhelmingly (73%) expected to increase but fewer now expect large increase.

A substantial minority believe's high unemployment is here to stay (because of new technology).

### Facts

Trends New technology may result in transitional unemployment from rapid change but should not automatically mean permanent loss of jobs. We could easily consume many time more than we now produce. So we should need as many workers as now until average output increases to several times its present level. Even in Japan the new technologies are barely compensating for other factors slowing down productivity growth.

In any case we need to adopt the new technologies to avoid losing jobs to our competitors.



## UNEMPLOYMENT

### - Perceptions (cont'd)

**Causes** World recession is most widely accepted as an important cause (52%) and most often considered the most important cause (17%).

But Government's Policies are not far behind (37% and 14%). Moreover, half the electorate think there is at least some truth in the allegation that Government is making unemployment rise on purpose to keep down wages or break the unions.

Only a small minority (7%) spontaneously blame unemployment on excessive wages (relative to productivity). When prompted, the majority accept there is at least some truth in this.

Very few people think there is a trade-off between unemployment and inflation. Indeed two-thirds accept that curbing inflation is a precondition of reducing unemployment. Generally people want unemployment and inflation to be tackled simultaneously.

**Policies** Reducing interest rates, reducing the retirement age and channelling more money into investment are each seen as cures for unemployment by nearly half the electorate.

Nearly a third mention reducing union power, cutting taxes, import controls, or wage moderation as possible remedies.

However, voters are very hazy about what the Government is doing to reduce unemployment. Cutting Government spending used to be most often mentioned (34%) but rarely thought effective; reducing union power was the only other widely recognised Tory policy (30% in 1981, probably higher since the new Employment Bill). Youth training and other special measures might now be gaining recognition as Government measures.

Nearly a third of voters could not think of any government policies to cure unemployment even when prompted.

The notion that it would cost less or little more to employ people than keep them on the dole is probably gaining ground.

Most (60%) believed the Government was not doing enough to help the unemployed before the latest initiatives.

### - Facts (cont'd)

**Causes** The world recession is a useful label for the factors explaining the worldwide rise in unemployment though it provides no explanation.

The main underlying factor is that money rates of pay have risen more rapidly than money spending in most countries. If an individual firm's revenues rise 5% but its employees' wage rates rise 10%, almost inevitably the number of jobs will be cut. The same is true nationally. Britain's problem is particularly severe because of accelerating pay increases from 1977 onwards (9%, 13%, 16%, 21%). These rises were conceded by employers in the expectation that this government, like its predecessors, would pump in the extra money to pay for them - even though this government was committed to slow down the rise in money spending.

It is disappointing that although employees increasingly recognise the connection between pay and jobs at their own shop floor, few as yet place the blame for the nation's unemployment on the explosion of pay, in excess of productivity, between 1977 and 1980.

**Policies** To the extent that people price themselves back into jobs, by moderating pay and increasing productivity (which is beginning to happen) the government is not seen to be instrumental and can only claim indirect credit.

Emphasis has therefore to be placed on measures directly implemented by government

- the training initiative which will guarantee a place or job for every school leaver by Christmas,
- measures to encourage new business: enterprise zones, small business programme, tax reliefs etc.
- measures to improve the working of the labour market: Young Worker Scheme, sale of Council houses, etc.



## INFLATION - Perceptions

**Trends** The number expecting prices to rise sharply in the next year has halved. But most are pessimistic about inflation being reduced a lot. Most (75%) recall that inflation was lower when we were elected.

**Causes** Most people think inflation is caused by businesses putting up prices to increase profits or because of wage increases. Few perceive the connection between prices and money supply or borrowing. The exchange rate is more widely understood to affect prices.

**Policies** Direct controls of prices and/or wages seem the obvious cure to most people though their popularity has declined over the years. The Government's policy of reduced borrowing, though not recognised as anti-inflationary, is considered wise by a large majority (68%).

## NATIONALISED INDUSTRIES - Perceptions

**Developments** The proportion of voters opposed to nationalisation has risen steadily since 1948 to a large majority. However, probably only a minority recognise how seriously the nationalised industries have exacerbated the nations financial and cost problems during the recession. Most of those who do see them as a burden (notably BSC and BL) probably expect them to remain so indefinitely.

**Causes** The large majority who dislike nationalisation attribute its failings largely to a lack of competition and only secondarily to the lack of profit motive.

**Policies** There is fairly widespread, if grudging, respect for the Government's backing to BL and BSC in their survival plans.

Although nationalisation is unpopular, privatisation is not correspondingly popular. Indeed it was not until recently seen as an option.

Particularly among SDP/Liberal inclined voters privatisation may be seen as a deplorable aspect of ding-dong politics.

## - Facts

**Trends** For the first time since the war inflation could well be lower over this parliament than during its predecessor. This represents an historic change of trend back towards sound money.

**Causes** Where inflation is concerned people are more interested in results than causes.

**Policies** At present it is almost inconceivable that any attempt to introduce an incomes policy could result in a lower level of pay settlements than is taking place. It might well result in a 'norm', higher than the going rate, which would prove to be a floor rather than a ceiling. This is worth reiterating.

## Facts

**Developments** The likely improvement in the finances of BSC and BL will probably come as welcome surprise.

**Policies** The alleged ding-dong battle between nationalisation and denationalisation has been all ding and no dong. No major business was denationalised between 1951 and 1980 although seven major businesses were nationalised. (Even the 'denationalisation' of steel in 1951 is a misnomer: the incoming government aborted its predecessor's planned, but incomplete, nationalisation).

The current privatisation programme represents the reversal of a thirty year 'ratchet effect'.



## UNIONS/INDUSTRIAL RELATIONS - Perceptions

Trends The improvement in labour relations is probably not fully recognised. Pessimism about strikes remains high.

Causes Unemployment has been thought the main cause of industrial relations peace.

Policies The large majority favours Union reforms and before the latest Bill most people thought the government was not doing enough. That majority favouring reform has declined somewhat (13%) with, and probably due to, rising unemployment which has aroused suspicions that the working class (rather than oppressive union powers) are under attack.

## SMALL BUSINESS - Perceptions

Developments Most people think far more businesses are closing down than starting up.

Policies The battery of pro-business measures is gaining increasing recognition from businessmen. Wider public perception is probably still low.

## Facts

Trends The level of industrial disputes has been the lowest for 40 years.

Causes Recognition that the government will not intervene to bail out companies brought to their knees by strikes will prove a more enduring cause of industrial peace than unemployment.

The absence of Government intervention and '11th hour talks at No. 10' has depoliticised labour disputes and helped secure peaceful settlements especially in the public sector.

## Facts

Developments As many businesses are being formed as are closing down. This is probably unprecedented in a recession.



## INVESTMENT - Perceptions

Developments Investment is widely believed to be declining, particularly in the nationalised industries.

Causes The Government's cuts tends to be blamed for the supposed inadequacy of investment.

High interest rates, high taxes, trades union opposition and poor management also receive blame.

Policies A majority favours channelling government money into investment.

## - Facts

Developments Nationalised industry investment was cut in real terms by the Labour government every year from the 1976 cuts onwards. The fall was stopped in our first year and sharply reversed in the current year. The initially planned 15% increase in real terms in 1981/2 has since been augmented and will reverse all Healey's cuts 'at a stroke'.

Other public sector investment has been declining: largely because of cuts in housing, roads and schools. In housing and roads there has been a desirable switch from new building to renovation and maintenance - which happen not to be classified as investment. New schools are not needed because of declining numbers of pupils.

Private sector investment has been unusually buoyant during a recession of this severity. It reached an all time record in 1980 and a modest increase is likely this year. Company spending on new product development, which is generally not classified as investment in the published figures, seems to be rising strongly.

Policies Unlike its predecessors, this government is determined to devote government funds to new investment rather than to maintaining overmanning - and preferably to the new technologies and new industries.



## PART III - BUDGET : PREPARING OPINION AND FOLLOW UP

### Pre-Budget Preparation

- (i) Dampening Expectations It was felt that the response to the budget is bound to be more favourable the gloomier expectations were in advance. A couple of sobering speeches on the need to continue to curb borrowing would be valuable, particularly if delivered by non-economic ministers. The effect of lower oil prices on tax revenues could be emphasised (while reassuring industry that it will benefit overall from lower energy costs).
- (ii) Presenting Budget as the Middle Way It is useful if the Chancellor can present his chosen level of borrowing as the middle way. So it would help if the many calls for increased borrowing were balanced by a few cogent public appeals for all the fiscal leeway' to be used entirely to reduce borrowing.

MP's like Peter Lloyd, Archie Hamilton, Michael Brown, John Browne or Ray Whitney might be encouraged to oblige. Outside Parliament Brian Griffiths, Alan Budd or Tim Congden might voice similar opinions.

- (iii) The Budget Theme If the budget is to have a theme it would be valuable to prepare the ground for that theme in advance (saving the specific label for Budget day).

For example the ground could be (and to some extent is being) prepared for the theme of 'industry and jobs' by speeches emphasising that these must take priority over personal incomes if we are to nurse the recovery without sacrificing gains made against inflation.

### (iv) Problems

- (a) The drop in the industrial production index is bound to be used as further evidence of the need for reflationary borrowing. It is important to head off this criticism by emphasising that, weather and special factors apart, the only factor depressing industry was additional destocking following the rise in interest rates. So we cannot risk another rise in interest rates which is what substantial borrowing must induce.
- (b) There are signs of a new bandwagon beginning to roll among opinion formers based on the idea that unemployment could be substantially reduced, without reflation, by some deft package of subsidies and incentives. This could be damaging as it appeals to the fiscally responsible commentator and thence to our supporters. The government has introduced what it believes to be the most cost effective measures of this type and there may be a few more to come. However, we need to keep people's minds concentrated on the facts:-
- that large scale unemployment will only be substantially alleviated by moderation in wages across the board;
  - government cannot subsidise wages across the board (except by taxing them equally broadly).



POST-BUDGET FOLLOW THROUGH

- (i) Backbench support needs to be mobilised lest all the speeches be critical.
- (ii) Newspapers would probably welcome articles by ministers, say a couple of days after the budget, replying to the post budget comment.
- (iii) 29th March is the Anniversary of the declaration by 364 economists. Their principal assertions have been refuted by events. It would do no harm to celebrate their discomforture. The Times would be willing to take an article by a prominent economist if we suggest a name (Griffiths, Congden, ?)
- (iv) Local authority elections. Candidates will need briefing on the message in the light of the budget.