

Conservative Party file

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CONSERVATIVE PARTY NEWS SERVICE

Press & Public Relations
Department.

Phone: 01-222 0151/8
01-222 9000

Conservative Central
Office.
32 Smith Square,
London SW1P 3HH

THE RT. HON. LEON BRITTAN, Q.C., M.P. Release Time: 10.20 Hours/TUESDAY 118/84
21st February, 1984

Speech by the Rt. Hon. Leon BRITTAN, Q.C., M.P., (Richmond),
Home Secretary, to the Annual Convention of the Institute of
Directors at the Albert Hall, London, on Tuesday, 21st February 1984.

THE RADICAL APPROACH

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A Radical Government

It is about radicalism that I want to speak to you today. The Conservative Party's media critics, between frenzied bouts of banana skin analysis, have hit on a new theme. The Government, we are told, is riven between radicals and so-called consolidators; the former champing at the bit to abolish the welfare state, the latter replete with traditional wisdom, holding them back. It may be boring to say so but that picture is totally false. And so is the dichotomy between radical policies on the one hand and policies which are aimed at consolidating the political and economic ground which has been won on the other. The reason is quite simple; it is that unless Governments are prepared to be radical in their approach the only thing they finish up by consolidating is the public sector.

This Government is a radical, reforming Government; and long may it remain so. Political success for the Conservative Party has always followed radical renewal. And political failure has followed from refusals to take risks, not from a forthright commitment to long term objectives. In the 1950s we proclaimed the need to 'set the people free' - and we won. In the late 1970s that commitment to freedom was robustly proclaimed anew by Margaret Thatcher - and again we won. This time the fruits of victory have proved durable. For the main achievement of Margaret Thatcher's Government has been to change for ever the terms of the debate about Britain's future. That change is not just important for the political parties. It is not just important for business and for everyone in this Hall. It is crucial to Britain's prospects and prosperity in the years ahead.

2. Turning the Tide of Collectivism

Forty years ago Professor Hayek dedicated his famous 'Road to Serfdom' "to the Socialists of all Parties". How right his gloomy predictions came to seem. As he put it, 'scarcely anybody doubts that we must continue to move towards Socialism, and most people are merely trying to deflect this movement in the interest of a particular class or group'. Over the intervening years it became so much assumed that it was barely even asserted that growth could only be induced by industrial planning and

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demand management; that the role of Governments was to fine tune the trade-off between unemployment and inflation; and, most sinister of all, that social and economic peace could only be achieved through the spoils system of corporatist collaboration. The wisdom of markets would be replaced by the wisdom of the bureaucrat and the politician. And even the growing evidence of relative economic decline persuaded those in charge of the nation's affairs not that their assumptions and approach were wrong, but that decline itself, and probably absolute decline at that, was inevitable.

What a contrast if you look around you now. Where, we may ask, are the 'Socialists of all Parties' now?

Who now seriously believes that Government, through pulling monetary and fiscal levers or through planning and controls can permanently change the real world in which we have to live? Who now seriously argues that a bigger public sector and more public spending offer our best chance for social and economic progress? Who seriously thinks that workers can strike their way to higher pay settlements without pricing themselves and others out of jobs? Of course, some think these things, or at least pretend to. But those who do can rarely be found within those circles of informed opinion where but a few years ago their views would have been the consensus.

Or, again, outside the economic sphere, take yesterday's Socialist certainties in education. Does anyone seriously believe that ever more costly forms of social engineering in the classroom and suppression of selection in and choice between schools produce happier, more capable children?

Or in housing: who, walking through one of our vandalised, high-rise inner city council estates believes that yet more public ownership, more state subsidy and more Government planning are the answer to deprivation there?

The same sea-change of opinion, so fundamental and so swift as to pass almost unnoticed, has occurred abroad. Looking at the present

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actions of foreign governments originally elected to spend, borrow and plan their way out of recession, Hayek today might be tempted to re-dedicate his book not to the Socialists of all Parties but to the Conservatives of all countries.

A new international consensus exists on the need to control Government spending and borrowing, to encourage profits and to make markets work. Successive international summits have recognised it - and the British experience is being followed closely. Just a few years ago our Medium Term Financial Strategy was the butt of lethargic jocularities at every fringe meeting at the Conservative Conference. Now, however, the example of the MTFS is studied and followed by Governments at Conferences of a rather different sort. West Germany and Holland have medium term plans to tackle their government deficits. And there is growing pressure to adopt a similar approach in the USA.

What lies behind this sea-change of opinion and policy is a mixture of necessity and conviction. To deal with necessity first.

It is all too easy now to forget how near the abyss Britain came when collectivist policies were last pursued. Massive over-spending, over-borrowing and an almost total abdication of financial responsibility induced in 1975-76 a crisis of confidence which only humiliating IMF intervention could allay. A more long drawn out crisis of labour relations fuelled by high and rising inflation, increased trade union power, and the internal politicking of the Labour Party undermined Britain's ability to compete. Government Ministers stood on the notorious Grunwick picket line. And in the winter of 1978-9 the ugly - and accurate - face of the collectivists' allegedly compassionate and caring society broke through again as hospital patients went untreated and the dead lay unburied. Public revulsion against all that will not easily be erased by public relations stunts and offering to send back the Elgin Marbles.

Internationally too the combination of inflation and unemployment brought home to Governments the need to curb collectivism - and above all the need to curb the growth of public spending. By 1981

Real public spending in the seven largest OECD countries was about 2½ times as great as in 1960; and it had been growing at some 4½% a year. Public spending on social security, pensions, health and education were the fastest growing items. Other countries had to realise that those trends had implications for taxation, growth and employment which many would consider profoundly unacceptable. The publication of our own Green Paper on long term public expenditure will allow those who share that perception to engage in debate those who manifestly still do not.

3. Markets as the Engine of Progress

But the new consensus also represents a new conviction. That is something which we must not hide. It is that the pursuit of equality through collective action creates poverty, injustice and often corruption and oppression. At the heart of liberal Conservatism and the social market economy is a belief in the individual's ability to better himself and, through the market, to better others too. That is why the most important single long term goal of this Government must now be to make markets work.

That does not mean that we should ease up in our attempts to create a solid, enduring framework of laws and sound money in which people and companies can thrive. Far from it. The fight against inflation must go on. And, as was demonstrated during the appalling scenes of violent picketing at Warrington, the rule of law must and will be upheld whenever it is challenged.

It does mean, however, that wherever markets are not working properly they must be reformed. Wherever the effects of markets can be simulated within the public sector, they must be. And, above all, where the private sector can legitimately challenge, supplement or acceptably replace the public sector it must.

The market mechanism, properly regulated, is and always has been the great engine of political, social and economic improvement. The way in which market forces can be brought to bear throughout

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the economy will be different from sector to sector. But there should be no doubt that if markets in Britain worked better we would have more, well paid employment, better prospects for sustainable economic growth and higher quality health care, better pensions and improved education.

4. Ending the Patronage State

One thing is clear. No-one can ever make markets work while more and more people have a vested interest in stopping them do so. The patronage state extending its tentacles of dependence into every area of our national life has no place in modern Britain. That is why it is so important to reduce the size of Government. Our Civil Service is now smaller than at any time since the War. Over 400 Quangos have been abolished. The frontiers of state ownership in industry are being rolled back. Argument upon argument about privatisation has been or is being layed to rest. First we were told that nobody would buy businesses or assets in the public sector; not only have people done so, employees have done so, thousands of them. Then we were told that the so-called 'natural monopolies' had to remain fully and permanently in public ownership. Telecommunications was regarded as one such - until someone discovered that the scope for competition and then private ownership under public regulation was real and the potential pay off enormous. To how many other 'public utilities' does this apply? Similarly, economists and politicians have together over the years contrived to define great areas of our public services as synonymous with the provision of 'public goods' which markets could never adequately supply: that must surely be open to challenge too.

There can be no doubt that it will always be difficult to introduce or replicate the benefits of competition and the market within the public sector. But try we must. And try we will. Take local government.

Local government is not as some would have us believe simply one elderly root of the ancient tree of British liberties. It

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certainly has a vital part to play in our national life. But it is also a large part of the public sector - and its spending has so far proved uncontrollable. I do not need to remind you today that some £4½ billion is levied in rates from British businesses: rates are the biggest single tax on companies and the only one which has risen - by one quarter - in real terms since 1978-9. Sometimes, as in the rate capping provisions of our Rates Bill, to which the Institute has lent its valued support, we have to use the power of the state to tame the state, so as to emancipate the individual. But along side that we must pursue, and indeed are pursuing, a vigorous policy of encouraging the extensive contracting out of local government services which can be performed more cheaply and efficiently within the private sector. In just one small area of local government activity - refuse collection and street cleaning - at least £7 million a year of rate payers money is already being saved by contracting out. Competitive tendering for health authorities' support-services will yield savings which can be used for patient care. Similarly, the contracting out of the ancillary functions of central government is proceeding apace. Our aim must now be to bring private enterprise and the market into the heart of Government itself.

5. More Choice in the Public Sector

Any attempt to talk about the need for market disciplines in health, education and housing frequently inspires hypocritical howls of execration. But market conditions can in some measure be created within the present structures of public services. To deny any possibility of sensible discussion of the scope for more choice, more personal responsibility and a market approach in whole tracts of the public sector would be to deny any possibility of change or improvement. In no other country in the free world would it be impossible to discuss these matters coolly; and it must not become so here.

The actions taken by this Government in health, education and housing all demonstrate how such improvements can indeed be made. In the National Health Service, Norman Fowler is planning to introduce changes which will lead to tighter management and to cost centres

analogous with those which would apply in the market sector. In education, parental choice between schools has already been widened by the 1980 Education Act. The publication of examination results is one way in which the operation of that choice is being improved. It may well be that there are other ways in which schools could be made cost centres with responsibilities for self management. We are also creating new pressure for higher standards by putting vocational education into the market place. The MSC will act as a customer, able to choose between vocational courses, both public and private. As a result, local authority colleges of further education will have to compete for funds from the MSC, with one another and with the private sector. And finally, housing. Greater strides towards a property-owning democracy and greater social and economic mobility have been made in this area than in any other. More than 600,000 households have bought their public sector homes and more than 120,000 sales are in the pipeline. Further incentives are to be provided under the Housing and Building Control Bill. Mobility within the public sector of housing is being improved. But there is undoubtedly much to do if we are to revive the market in private rented housing - and nothing could be more valuable in improving labour mobility and so tackling one of the root causes of unemployment. In no area of the British economy has the stubborn collectivism of the Labour Party wreaked such havoc as this.

6. Competition and the Professions

Nor should the professions remain unnecessarily sheltered from the stiff breezes of competition. Proposals to improve competition in conveyancing were announced last Friday. The City and the Law Society are also opening up their practices to more competitive pressure. Competition must apply irrespective of vested interests in the private and public sectors alike in whatever form best serves the customer's interests.

7. Reforming the Labour Market

Nowhere, though, would improvements in markets reap surer or more welcome rewards than in the labour market. A more efficient labour

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arket, allowing workers to price themselves and others into rather than out of jobs, would make the single most important contribution to tackling the scourge of unemployment.

For years trade unions in Britain have sought to collectivise the economy. From the top, through pressure for nationalisation, planning agreements and legislative changes to reinforce their powers. From the bottom, by constant pressure to widen union membership - and in particular through the application of the iniquitous closed shop.

The whole sorry process has been self-defeating - but it has been a defeat in which all of us have lost. The inflation, price controls and nationalisation which were the quid pro quo for 'voluntary' incomes control under the Social Contract and its predecessors almost fatally undermined our ability to compete. And the very conditions which unions demanded from Government - above all, high spending, inflationary policies - prevented union leaders themselves from delivering wage restraint. In a vicious circle of alternate confrontation and collaboration unions and Labour governments systematically and spectacularly destroyed the British labour market and sowed the seeds of today's high unemployment.

Nothing is more nonsensical than the claim that the law has no place in industrial relations. It does; it always has; and it undoubtedly always will. Unions are creatures of law. Since the start of this century their leaders have lobbied, often successfully, for changes in the laws which govern their activities, in the direction that suited them. Our two Employment Acts are not different in kind. But ours are measures designed to redress the balance of power between employers and employees, those in unions and those outside them, those who hold jobs and those who seek jobs. As such they are both necessary and legitimate.

Yet ultimately it is up to the unions to recognise that the irresponsible misuse of their power both to force up real wages and to impose unionisation on those who do not wish it leads to more unemployment. The clear lesson from the United States is

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That where labour costs are lower and where mobility between jobs is greater, more jobs come into existence - jobs in firms and industries often undreamt of a few years earlier, jobs in franchising, or growing self-employment. Like our counterparts abroad, we now, more than ever before, have to recognise that change is necessary, not resistable; that technology ultimately creates more wealth, better standards of social provision and more well paid jobs; and that it is not those who reject but who welcome change that gain from it.

Finally, the scope for making markets work as a route to prosperity, social improvement and fuller employment extends far beyond these shores. Whatever else it is to be, the European Community must become a genuine Common Market. Yet too many non-tariff barriers remain. Europe is still far from an open market in important services like insurance and civil aviation. Equally, the defence of the world's open trading system upon whose maintenance our and others' prospects of sustained recovery ultimately depend must and will remain a fundamental objective of our foreign and economic policies.

8. The Conservative Party as a Party of Reform

I began by saying why this Government is and has to be radical. And I have tried to sketch out across a wide canvas the areas where our radical market approach is and will be at work. I would like finally to lay to rest two damaging illusions, less likely to be shared by those in this Hall than those outside it, but pervasive all the same.

The first is that the Conservative Party should not be a Party of reform at all. To that I answer that there have always been two parts of the Conservative message of freedom and two historical though interwoven threads of Conservatism itself. On the one hand, we are rightly sceptical about short cuts, easy arguments, belief in changing institutions rather than in changing minds; we are in short conservative with a small 'c'. But it is no less true that we have inherited from the liberal tradition a belief in the capacity of individuals, families and businesses to change, improve and if necessary triumph over their environment. That
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optimism is the vital, vibrant quality which we share with the men and women whose skill and enterprise provide the wealth upon which this country lives.

Together we have, therefore, to dispel the second set of illusions about markets. We who believe in markets are not ideologues pushing an idea for its own sake. We believe in markets because we know they offer the prospect of real social and economic improvement. We know that markets can and must be combined with good social services and that only a successful market economy can ever pay for them. We are not advocates of 'laissez faire' for we understand that Governments have to be strong to maintain the financial framework and the rule of law required to make markets work. And Governments must be strong enough too to intervene vigorously when necessary to ensure that competition within markets is effective.

It is this brand of 'radicalism' that Britain needs.

We have sought to provide it. We shall continue to do so. The radicalism of yesterday is fast becoming today's consensus. But there is a long way still to go in the journey of practical exploration on which we embarked in 1979. Our task now is to proceed with all deliberate speed further down this road.

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