
JOHN BIFFEN MP

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POLITICAL OFFICE OR POLITICAL POWER?

Six speeches on National and International Affairs

JOHN BIFFEN MP

FOREWORD BY MARGARET THATCHER

Centre for Policy Studies

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Foreword

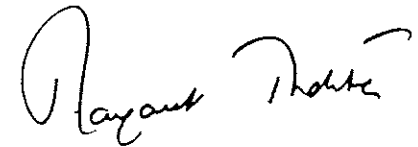
Opposition is a time for reflection, as an integral part of redeploing the Party for a return to power. Defeat at the polls, particularly when it reflects a substantial decline in the party's share of the vote, is a bruising experience. But nothing is a better test of a party's seriousness and fitness for office than the way it addresses itself to the causes of its setbacks while in office and its electoral defeat. Temptation to blame fate and the electorate is strong. But this can only leave faults undisclosed and weaknesses unrepaired. By contrast, bold re-examination of our ideas and practices in the perspective which experience alone gives, will armour us for battles to come.

John Biffen's six thoughtful speeches constitute a contribution to this endeavour. They do not necessarily represent party policy. But that is the whole point of discussion among ourselves. The Conservative tradition itself is one of many strands, that is one essential characteristic of Conservatism.

Mr. Biffen's handling of political economy is an object lesson. He uses economic theory as it should be used, as an instrument for appraising ever-changing facts, not as a source of ready-made answers. He traces the interplay of economic and political forces with a sureness born of experience well considered.

A former opponent of Britain's entry into the European Economic Community, he offers constructive criticism which the Community's most impassioned supporters could welcome. His analysis of the national question: 'A Kingdom United?', will be novel to many readers and perplexing to some, but a valuable exercise in political logic for all.

At the eve of our Party's conference this collection of essays will provide further proof of our party's intellectual vitality and capacity for reasoned courteous discussion. It deserves a wide circulation.



Introduction

British politics have become increasingly unpredictable over the past generation. It now seems scarcely conceivable that the post-war Attlee administration did not lose a single by-election. Until the late 1950s the modest and near-uniform electoral swings suggested some kind of political trench warfare with limited but decisive objectives. All that has changed. No seat now is safe in a by-election either. In Scotland no seat is safe in a general election. The Gallup opinion polls consistently record a "don't know" tally of 20 to 25 per cent.

There is a profound discontent and unease with national institutions and established political parties. The intensity of that discontent has been masked. The Liberal party, having forfeited its central role in British politics, nonetheless has remained a factor in the post-war era. Paradoxically, it became the beneficiary of the protest vote from the 1960s onwards. The protestors had a host of reasons for their disillusionment, but they rarely coincided with the Liberal policies for British integration into the European Community and for greater acceptance of immigration.

Once there is an alternative vehicle for the protest vote we may perceive its harshness and desperation. It is still far too early to judge whether the National Front will rival the Liberals in the urban heartlands of England. The Front appears — momentarily — to have been checked in Leicester: but the fact that it outpaced the Liberals in thirty GLC seats is a timely reminder of the nature of the protest.

The air is thick with nostrums explaining our current malaise. Some of our difficulties are clearly evident. Inflation has proceeded at a terrifying rate since the early 1970s. This has had a predictable and socially corrosive impact. The value of savings has plummeted. Trade unionists decry the profits of business; employers deplore the wage claims of labour; and politicians

busily blame each other. It is a sickening babel of recrimination. Thus, whilst living standards are comparatively high, the random and unfair impact of inflation has left a sizeable minority who feel totally estranged from a political system that has permitted this state of affairs.

Secondly, the growth of government has necessitated heavy increases in direct taxation. These now bear acutely upon those earning well below the average wage. At the same time there are recipients of tax-free social security benefits who may also obtain occasional undeclared "moonlight income". This causes the most profound resentment. 'Why work?' is not an empty saloon bar rhetorical question.

To a large number, perhaps a majority, Parliament seems unable to perform its basic tasks. It cannot provide monetary stability. It cannot devise a sensible tax system to match public spending. Its spending reveals a poor sense of priority. It is unwilling to implement an effective campaign against crime and uphold the rule of law.

The issues are crudely put. Even so they lie at the heart of a popular disenchantment with Westminster and traditional politics. This discontent neither knows or cares about such weighty issues as a referendum, proportional representation, or a Bill of Rights.

I certainly do not disparage concern for constitutional innovation. It is sought by an influential minority, particularly from within the captains of industry and finance. It is not immediately clear, however, why constitutional change should produce greater political and economic stability. I have no innate hostility to referenda or electoral reform. There is, however, not a scrap of evidence to suggest that such changes would lead to the non-inflationary management of the economy. Businessmen who demand major constitutional changes often do so on the basis that we should approximate to forms of German government. It is then supposed there will be "sympathy magic" which will produce our economic miracle. Yet the self-same people frequently reject the German concept of two-tier board on the basis that British trade unions are irredeemable and quite unlike their German counter-parts.

Of course our institutions are far from perfect. Even so it is political policies that have to be changed and not the constitution that has to be restructured. There will be those who will argue that we need a priority in constitutional change. They

believe that a better economic performance will accompany the inevitable and consequential triumph of political "moderates". This siren argument must be ignored. It ranks with previous but discredited soft and comforting options that governments can spend or tax cut their way to economic growth, price stability, and full employment.

The Tory party must, then, perform its task against the background of deep public unease and a widely-held conviction that the current generation of politicians and parties are unable to resolve the major outstanding social and economic issues. Such a task makes formidable demands on both political content and style.

I am profoundly sceptical of party manifestos and the commitments they usually imply. It is imperative, however, that the Tory party should possess an inner conviction and a general cohesion about its policy objectives. That conviction has to be conveyed to the voting public. If that task cannot be fulfilled, Conservatism will be no more than a night-watchman, doomed to preside over the intervals of pause between the periods when its opponents make irreversible policy changes.

Let no one underestimate this danger. Tony Benn has now emerged as a major political figure in the Labour party. He has become an irrational hate figure for many of his opponents in the worlds of politics and business. Yet, in my view he is too substantial to merit this treatment. A Labour party led by Tony Benn or Peter Shore could move towards the position of becoming the party of national planning allied to nationalism. This need not involve any substantial further nationalization. It would involve the use of national government planning agreements with multi-national businesses, and the use of national import quotas and tariffs. The mood for protectionism is evident and could get stronger. There is, moreover, no reason to suppose that economic and social problems are any easier to resolve by supra-national rather than national government. Tony Benn is marking out a populist and radical alternative to our present economic and political arrangements. That alternative has "national planning" as its touchstone. It is not, of itself, an extremist political remedy. It need involve no expropriation of assets; it builds upon the present close relationship between government and large scale industry and it will capitalize on the present disillusionment with the Common Market. Those who take refuge in mere denunciations of these policies as some wild

Marxist "red-print" are reacting in a superficial and short sighted way. "Bennite" socialism could become electorally popular and so requires a rather more measured and thoughtful response from the Tory party.

What, then, should be pre-eminent in the Tory message. What schemes can be proclaimed so that they capture public attention and contain the political dedication to make them effective. First, there must be a commitment to alter the balance of the mixed economy. Undoubtedly the co-existence of major public and private enterprises enables the failures of that economy to be attributed, according to taste, to the alleged failings of either private enterprise or the public corporations. There is no merit in a mindless Conservative berating of public enterprises. However, we now have a close identity between large scale private enterprise and government and also a public sector whose pricing, incomes, and investment policies have been under close if not oppressive political control. The case for reform is now overwhelming. In February Sam Brittan wrote in the *Financial Times*: "The point may yet come where Hungary or Poland may give a better approximation to a sensibly managed market economy than Britain or Italy". That is a chilling comment.

Fortunately there are signs that it is possible to alter the balance in the economy. Conservatives will be heartened by the denationalization of £500 m. of British Petroleum. Every effort should be made to secure a more direct participation in the financing of nationalized industries by the public other than in the captive role of taxpayer.

Furthermore public institutions should not become the easy bank of last recourse for business in decline. In the spirit of bi-partisanship a Tory can underline the Labour government commitments on Department of Industry financial aid when it avowed 'An assessment of viability is a matter of facts, figures, and commercial judgment, in which wider economic and social factors have no part to play.'

There is, then, scope for private finance to operate increasingly alongside government finance; for government finance to be withheld from situations of private industrial and commercial failure; and finally for the expansion of the private sector itself. This last mentioned consideration leads to the central question of taxation itself.

Taxation must be a major theme in the Tory message. The broad thrust of future Tory tax policy is already evident. Sir

Geoffrey Howe has committed us to greater emphasis on indirect rather than direct taxation: to a reduction in the top limits of direct tax and to a reduction to the impact of capital taxation. Let no one assert that these changes will inevitably produce a growth in the private sector. That is too optimistic and too facile. Equally, however, let no one deny that these proposed changes will provide a happier environment for free enterprise and success.

Finally, there is the need for the Tory party to establish a European policy that takes account of our national needs and the maritime character of our trade and history. Mrs Thatcher has asserted:

'I believe we should continue to have a partnership of nation states each retaining the right to protect its vital interests, but developing more effectively than at present the habit of working together . . . I do not believe we shall get far by drawing up blueprints for the next generation. Our object in the political realities of today is to make a success of the partnership.' (*Europa*, January 1977).

It is against these words we should test the British national interest in the prospective enlargement of the Community, and in its developing trade policies. A Common Market enlarged to include Greece, Spain, Portugal and, possibly, Turkey will be a transformed institution. Indeed it will provoke the question on whether the legal constraints of the Rome Treaty enable 'more effective working together.' Secondly do our 'vital national interests' lie in a policy of EEC protection or EEC free trade? The Conservative party has an over-riding need to proclaim what are its national objectives within the EEC and by what institutions it intends to secure them. In this context there are two dangers to avoid: the first is the possible emergence of inconsistent economic policies as applied respectively on the national and European stage. A domestic policy of 'setting the people free' cannot truly co-exist within a narrowly protectionist continental system. We cannot be economic liberals at Westminster and captive "dirigistes" in Brussels, in the mistaken belief that future expanded public spending by the Community will be financed by the Germans. Secondly, the Conservative party must not become identified in the public mind with foreign bureaucratic rule, out of a foolish fear of appearing insufficiently "European". Failure to look critically at the institutions and policies of the Community would play into the hands of a populist Labour party, looking for any and every opportunity of

wrapping its programme and its egalitarian rhetoric in the Union Jack.

A vigorous and successful Toryism can only be built out of a fruitful inter-marriage of liberal economics with an outward looking patriotism. There is an obvious and appealing link between self-reliance at home and national confidence abroad, and its articulation and embodiment should be the prime concern of the next Conservative government. Unless we respond to that message there is the insidious danger that the Conservatives will become the Party of Brussels whilst Labour becomes the Party of Britain.

I turn now to the question of style. The case for liberal economics in a national context needs the most persistent advocacy. It runs counter to so much of the received wisdom of the past generation. During that period it has been constantly argued that almost every problem was susceptible to a political or public spending remedy. Secondly, it was generally supposed that Britain desperately needed the substance of a multi-national association as the substitute for a vanished Empire. We now need to preach the virtues of rewarded individual success and the merits of a measured sense of national defiance and assertion.

The language and style of such a political message is all important. It is not an appeal to unbridled self-seeking and an evocation of an empty jingoism. It is an appeal to a people who have observed the gap between political promise and subsequent performance. It is, therefore, vital not to raise expectations that cannot be fulfilled. A policy designed to cut back public spending, effectively reduce taxation and accommodate the consequential economic upheavals is daunting. It has a long political lead time. It needs two parliaments. It is significant that the leading British monetarist economist, Alan Walters, has advocated a seven-year Parliament. The fearful prospect is for a general election to intervene upon a half-completed strategy. Half-success is all too easily equated with total failure. The rhetoric of politics, therefore, should be modest in the extreme.

Secondly, there must be a disposition to incur the minimum of institutional dislocation. In particular this precept applies to the area of so-called "incomes policy". There have been a succession of aborted or abortive institutions that have sought to assist in the government regulation of pay. Future governments will doubtless wish to proclaim the expected consequences of their public spending, taxing and borrowing policies. There is

absolutely no reason why the institutions that attend this dimension of government should not be common to Labour and Tory alike.

Thirdly, the emphasis on the individual and the nation as opposed to large scale government and the continental superstate does have a special appeal to the self-employed and small businesses. It is essential that this appeal should not be in narrow "poujadist" terms. Neither should it be a starry-eyed and idealistic level — worthy of William Morris. There is, however, growing evidence to suggest that the growth of small businesses provides the greatest hope for countering endemic unemployment.

The issue, however, has wider implications. The debate on energy will ultimately revolve around the decision whether our national ingenuities are to be devoted to rendering nuclear power environmentally acceptable, or whether they are to be devoted to harnessing the renewable energy sources on a scale hitherto thought unattainable. No one supposes this is a crude argument between size and smallness. Even so it would be absurd to ignore the dominance the nuclear decision would give to technical (and political) centralization of power supplies. Many sceptics of nuclear power are to be found amongst libertarian groups not particularly sympathetic to the Conservative party. This should not dismay any Tory. The developing debate that identifies Toryism with a restricted view of government will, or could, provide it with unfamiliar allies. That is a consequence of the extreme volatility of contemporary politics.

Liberal economics in a national context is not a reversion to a Palmerstonian age of free trade and gunboats. It is an attempt to answer the anxieties of countless thousands who feel that government is too remote, too ineffectual, and too costly. The foreboding is matched by a bewilderment as politicians have sought to dismantle the power — if not the trappings — of a British nation state. Those anxieties must be measured and matched by the present political parties. The task requires clear policies and objectives. Above all it calls for an emollient style and modest but sustainable promises whilst we inch back from the abyss of unfulfilled expectations.

Political Office or Political Power?

The prospect of office always quickens the political pulse. That is natural. And although I do not think the election will occur as quickly as is commonly assumed, and although I believe its outcome would be unpredictable, I must concede that many Tories feel that Mrs Thatcher, even now, has within her grasp the keys to Downing Street.

The point I wish to emphasize, however, is that political office is not necessarily the same as political power. Office should complement and fulfill a widespread and irresistible desire for certain policies. In such circumstances a Tory administration can yield a rich harvest in social and economic achievement. If such circumstances are denied the consequences are barren and frustrating.

In the current situation the Tories *can* take heart that there is a substantial groundswell of opinion that is sympathetic to the market economy approach to public sector industries. On almost any test popular opinion rejects the nationalization of industry. Such a policy is seen as the refuge of a political dinosaur. I suspect that even the Tribune element of the Labour party will not for ever be impervious to this popular sentiment. although its re-education will be a somewhat lengthy process.

How has this welcome change in opinion come about? In part the answer lies in Westminster. The persistent and well documented record of political interference in the investment, pricing, and salary policies of the nationalized industries has had miserable consequence. That is acknowledged on all sides of the House of Commons: and no one should deny credit to the present Labour government for restoring economic charges in the energy and postal industries after the luckless prices policy pursued between 1972 and 1974.

Indeed the circumstances are now most propitious to enquire into the whole structure and assumptions of the public sector

industries. Political control of entities that are supposed to operate in a commercial world has resulted in a series of tatty compromises that fulfilled neither social nor economic objectives. At the same time relations between Government and nationalized industries have been marred by what the former chairman of the British Steel Corporation recently described as 'excessive pressure, bitter argument, and angry scenes.' (Report of an interview with Sir Monty Finniston in the Law Society Gazette — *Financial Times*; 9 July 1977). There is consequently a move abroad for organizational change and the development of techniques that will put the politician at arms length from publicly controlled assets.

It has rarely been noticed how substantially the character of our nationalized industries has changed in recent years. Most acts of nationalization after 1945 concerned either public utilities such as gas and electricity or else activities like coal that were largely trading within the United Kingdom and insulated from overseas competition.

The balance has changed decisively. British Air, British Steel, British Leyland, British National Oil, British Shipbuilders, and British Aerospace have two things in common which separate them from the other nationalized industries. First, they have to contend with substantial competition from imports for the United Kingdom domestic market; secondly, they aspire to sell at least a share of their output overseas in the world's market place. For the management of British Leyland the market economy — with all its imperfections — is an every day reality. The sales programme cannot be conceived and executed discreetly in Whitehall, or raucously on the floor of the Commons, or in the solemn conclave of a Parliamentary Select Committee, or in the corporate citadel of the National Economic Development Office.

There is then, I believe, a mood at many levels of opinion that would welcome any move by the Conservatives that would effectively put an arms length relationship between the politician and publicly owned assets. There is certainly an imperative need. Already trade unions in the shipbuilding industry are arguing that nationalization should mean no closures and no redundancies despite the overwhelming evidence of a Japanese, Brazilian and Korean challenge that can only be countered by a radical reorganisation of our shipbuilding capacity.

There should be three guide-lines for Tory policy in dealing with the nationalised industries. First, we should be encouraged

by the concept of mixed financing from private and public sources. This method has served British Petroleum well over many decades. Its merits have been underlined by the welcome and timely decision of Denis Healey to place £500 m. of publicly owned BP stock on the market for private ownership.

All the existing nationalized industries should be examined to see to what extent their financing and ownership can become a mixture of public and private resources. There is nothing particularly novel about this idea: it was argued by the late Sir Ronald Edwards in respect of electricity over a decade ago. It also follows that any introduction of private finance could also encompass the concept of employee/shareholders. In current circumstances I suspect that British Gas, British Oil, Post Office Telecommunications and British Aerospace are the most immediate candidates. The existence of a private financial stake would certainly be a most useful way of underlining the arms length relationship between the nationalized industry and the politician.

Secondly there should be a sympathetic consideration to the concept of a board structure that would insulate the nationalized industries from ministerial interference, either overt or subtle. In many ways, the subtle influence is the most insidious and I warmly join with Tony Benn in denouncing the 'lunch time directive'. A board structure designed to protect the management of the nationalized industries was postulated by the National Economic Development Office last year. It had a mixed reception from the heads of the nationalized industries, and has been totally neglected by parliament. There is an excellent case for the Tory party taking that report as the basis for an organisational change designed to help the management of nationalised industries operate in a more commercial climate. We need a generation of nationalised industry chairmen with the independence of character and entrepreneurial flair of Sir Frank McFadzean.

Thirdly, there must be an openly avowed political will to treat the publicly owned industries as commercial entities operating in the market place. I confess I cannot see British Rail being freed from the social obligations that politicians place upon it. On the other hand the investment programmes of the CEBG should not be dictated by the lobbying of the coal industry or the power plant manufacturers. The development of British Shipbuilders should proceed as if the Scottish National Party did not exist.

British Aerospace should seek a commercial market; Concorde has taught us that prestige can have an astronomical price tag.

Indeed the examples of political rather than economic judgements in the nationalized industries are endless and depressingly uniform irrespective of party. Even so both Conservative and Labour governments in the 1960s have published White Papers setting out commercial financial targets for the nationalized industries. Time and time again the noble intent has been frustrated by what was believed to be political necessity. On this occasion, however, I believe there really is the chance to influence — decisively — the climate of opinion in which decisions will be taken in respect of the nationalized industries. Instead of political trench warfare concerning the ownership of peripheral assets of the public sector there is the opportunity to outflank the whole nationalization debate as it has been presented for a generation. There is now the chance to argue for a market economy public sector involving new techniques of management and reformed methods of financing. It is a rare political prize — tantalising but surely attainable.

Incomes Policy by Explanation

Not long after the first cuckoo we usually get around to a debate on incomes policy. It is so this year. In the circumstances I want to make predictions, utter warnings, and offer prescriptions.

I make the following predictions. First, Phase Three will be concluded between the government and the appropriate representatives of the TUC. Secondly, it will provide such an elastic — and a necessarily elastic — formula for wage and salary increases that it will be free collective bargaining by any other name.

I now turn to my warnings. The nation *deserves* to be told that the government are committed to a public spending, fiscal and monetary policy that will broadly determine the aggregate of wages and salaries that can be paid during 1977/78. It follows from this proposition that the existence or otherwise of trade unions is peripheral to the determination of total income. Secondly, the nation *deserves* to be told that the individual and particular distributions within that aggregate can no longer be determined by a centralized decision of the government and the TUC operating in common formula. The distortions and absurdities of incomes policy have now become acutely apparent. There is an imperative need for the market place to be allowed to reflect the differentials of supply and demand otherwise we shall get industrial chaos.

I have just stated the two propositions which I think will characterise government policy: but I have deliberately used the phrase "the nation deserves to be told" of those policies in the terms I have depicted. Here is my warning. It is my firm conviction that the nation will be given a totally different story by government spokesmen to explain the workings of their policy. They will argue that trade unions have the power to increase or lower the rate of inflation, and that without a 'phase

three' agreement with the unions there would be a wages explosion and a consequential sharp rise in prices. That is the bunkum theory of inflation: but is invaluable to the Labour politician because of the historical ties which bind organized workers to the Labour party. James Callaghan and Denis Healey, therefore, have a vested interest in suggesting that the trade union cart horse is — in reality — a potential inflationary tiger which they alone have a chance of riding. That message will be proclaimed brazenly or insidiously; the whitened bones of Edward Heath will lead many to believe it.

It is, therefore, all the more necessary for the Tory party to make clear its own view on the nature of inflation and the techniques whereby it can be countered. Such an exposition inevitably embraces the current incomes policy debate — and will have to be argued against the powerful but dangerous mythology that agreements with trade unions are indispensable pre-conditions for the control of inflation. I turn therefore to my prescriptions.

Let us first consider the nature of inflation. It is now widely accepted that the method whereby the government finances its spending contains the monetary seeds of inflation. High public spending is not in itself inflationary if it is accompanied by high taxation and/or government borrowing at whatever rate of interest is necessary to attract the appropriate savings. So much for the theory. In practice, it will come as no surprise to discover that over the years and generally, politicians have enjoyed spending a good deal more than they have relished taxing. Furthermore until recently there was always a ready political audience given to the economic soothsayer who whispered that deficit financing by printing cash was perfectly respectable because money creation stimulated economic activity.

Fortunately we have moved away from that orthodoxy and I would wish to find the maximum common ground with James Callaghan and Denis Healey by acknowledging that the government now has a better control over money supply than for some years past. Central to this better control of money supply has been the cut back in proposed public spending increases and — until quite recently — high interest rates. Let no one be deceived that public spending cuts are not being put into effect: five minutes with the building and construction industry will convince otherwise.

Of course, there is a real and vital debate between the

Conservative and Labour parties over public spending and taxation. We can argue about what is the appropriate level of public spending, what priorities there should be within that total, and over the mix of taxes used to sustain such government expenditure. That is the everyday and vital stuff of party controversy.

The truth is, however, that there is now a general acceptance that monetary expansion is the indispensable pre-condition for inflation. Let no Tory begrudge the conversion of the Labour government to this view. I only warn that there will be back-sliding over the next twelve months as Denis Healey tries to spend and tax-cut his way towards a happier electoral prospect.

Indeed, there are already honeyed words about VAT reductions in autumn 1977 and that will be the first of many sweeteners. The prescription reads "little and often". Conservatives must be ready to condemn this electoral opportunism whenever it occurs. They must demonstrate the extent to which the government is forsaking its recent and improved behaviour, and is conversely putting in process a policy of deficit financing that will have inevitable inflationary consequences.

Let there be no misunderstanding. It is not a "wages explosion" that can cause further inflation unless the government creates the monetary conditions to accommodate it. If the Chancellor starts to reduce taxation, begins to nudge expenditure upwards, and maintains interest rates on a downward path he will be providing precisely that accommodation. The Conservative party must be ruthless and persistent in making this diagnosis of inflation and pinning the responsibility where it truly lies rather than chasing after such an obvious stage villain as Clive Jenkins.

I now turn to the problems of individual income determination within the aggregate that can only be fixed by government. Whereas the government should be totally dedicated to the pursuit of spending and taxation policies which will provide an over-all national income that is non-inflationary, it should by contrast be extremely unwilling to intervene in order to preside over the distribution of *group* and *individual* incomes. That should be left to the market with all its imperfections. Even so government cannot neglect its own role as employer, partly because of the tensions that are created by the size of various public sector wage settlements, partly because of the significance of the wage component in public spending, and partly because of the belief that the absence of bankruptcy enables public sector

wages to be prosecuted without any effective sanction.

There is, indeed, an imperative need for the Tory view to be clearly expressed on the question of public sector pay and the institutions needed to provide for its determination. The same need exists for any political party, but it must be emphasized that this "incomes policy" — for that is what it will be called — has nothing to do with inflation, but rather with the distribution of incomes.

Public sector pay should be governed by the following principles. First, the formulation of cash limits for central and local government should take a broad view on the pay scales and likely numbers employed. Thereafter negotiations should proceed using traditional bargaining techniques and whatever institutionalized procedures are mutually acceptable to public sector employers and the trade unions. Indeed the Whitley and Burnham Councils existed long before the misleading phrase 'incomes policy' began to confuse British economic policy.

Meanwhile it is vitally important that the trade unions should be well aware of the broad pay judgement contained within the departmental cash limit. Trade Union leaders need no instruction — either from politicians or press — that the discipline of cash limits pose the dilemma of a trade off between pay and jobs. That is a judgement unions must make in a disciplined bargaining situation, and it is rank nonsense to suppose they cannot be trusted to use their judgement.

Secondly, cash limits will have a significant role in pay settlements in the nationalized industries: but we should recognize that many of these industries are operating in at least quasi-commercial and competitive situations. The pay scales in the British National Oil Corporation, for example, will inevitably be related to those of the oil industry generally. Indeed it must be appreciated that public sector pay — through the mechanism of comparability — is much more likely to take its guide from the private sector than vice-versa. Inevitably there will be politically difficult pay settlements in the public sector — power engineers and coal miners come to mind — but the government should be unwilling to intervene and set aside the bargaining role and decisions of management in those industries. Of course, it is not possible to raise the spectre of bankruptcy in public sector industries but it is certainly possible — through cash limits and comparability with the private sector of the economy — to simulate practical restraints. It is a total absurdity to suppose

that for workers in the nationalized industries asking is receiving. The contraction of the railways, the reduction of the labour force in coal mining, electricity and gas are all reminders that market forces provide a relentless, albeit delayed, remedy.

Finally, there remains the question of whether the government should make more widely known the aggregate income implications of the public spending, taxation, and interest rate policy it is determined to pursue. Sir Geoffrey Howe, very rightly, is attracted to the German model of an economic council which assists "government by explanation". Tories can certainly draw inspiration from the modest but valuable role played by the "three wise men" set up by Lord Thorneycroft when he was at the Treasury in the mid-1950s. Indeed those were vintage years for Tory economic policy. Even so there is the danger that the public pronouncements on any expected increase in total income will be translated into a minimum figure for bargaining in local situations. I have no doubt that a future Tory government will wish to use the existing National Economic Development Office as an agency for "government by explanation": but we should be wise to cast only a modest role for such an institution.

The Tory attitude in the forthcoming incomes policy debate must, therefore, rest upon four pillars. First, we must proclaim our belief that government alone through its spending, taxation, and interest rate policies creates the monetary conditions which determine total income and the rate of inflation. We must welcome the conversion of the Labour government to this viewpoint and emphasize our common ground. At the same time we must be vigilant and denounce any signs of a fall from grace as the temptations intensify to "dress up" the economy before a General Election.

Secondly, we must recognize that the sheer size of the public sector requires the government to take a view on the pay of its employees. Cash limits will provide the overall discipline, but within that restraint there will be a variety of differential pay movements reflecting for example the relative demand for more policemen as opposed to fewer teachers. Within the nationalized industries there will be the added — albeit qualified — factor of general competition. I believe new institutions may be needed to facilitate bargaining and above all to relate the timing of annual pay settlements so they co-ordinate with the Treasury time-table for establishing cash limits.

Thirdly, we must develop a body similar to the "Wise Men" of

Lord Thorneycroft's days. They should comment upon the general employment and incomes implications of government policy. The National Economic Development Office might conceivably fulfill this role, and it would certainly assist Sir Geoffrey Howe's policy of "government by explanation".

Fourthly the Tory Party should be unashamedly open in its support for free collective bargaining. This proposition is not made as some pitiful and cringing gesture to gain trade union good will. Free trade unions are a hallmark of a free society: deprive trade unions of their power to bargain and you will have a corporate state. Indeed there are already frightening signs that trade union leaders have moved too close to government over the past three years. As a consequence power has passed and is passing to shop stewards, and Leyland and British Airways are just two examples of the industrial anarchy that occurs when trade union leadership are deprived of their proper function. Many employers recognise this.

Even so there are powerful and siren voices in the world of business that call for continued pay controls. I am distrustful of those who unctiously proclaim their "moderation" whilst condoning centralized pay planning. I am bound to speculate on the unspoken assumptions that underpin such advocacy of wages control. I suspect those assumptions harbour the atavistic desire to keep authority and control safely in the hands of those who now possess it. In blunt terms it is the cry of the 'Haves' — and its implications are reactionary and socially destructive. A modern Tory — by instinct, emotion, and intellect — is bound to reject any such desire to perpetuate a centralized stranglehold over wages. Freedom is our watchword: and it means freedom on the shop floor no less than in the boardroom.

The Europe of Tomorrow

One of the many advantages of Mrs Thatcher's leadership is that the Conservative party is enabled to have a much more relaxed discussion of Britain's relations with her sister-countries within the European Community and the evolving character of the Common Market itself. The change of atmosphere is all the more welcome on two specific counts.

First, there is still an absurd disposition across the political spectrum to regard every debate involving Britain and the EEC as a postscript to the battles over the European Communities Act and the Referendum Campaign. Indeed as I listen to the veterans — whether from the victorious or the vanquished — I conclude that these old soldiers are not only immortal but that their memories will never fade away. Mercifully we are now approaching a situation when a Tory can offer a critical assessment of EEC institutions without a baleful reproach from the hierarchy and without earning the meaningless epithet of being 'Anti-Europe'.

Secondly, the need for a more relaxed debate about the EEC derives from most fundamental changes that are taking place before our eyes. The Common Market could easily become totally changed in its economic potential and political direction by the adherence of new member states. Their potential — and likely — accession should be at the centre of the political debate about the EEC, and it is a measure of our insularity — and I do not use that as a term of approbrium — that the membership of the Mediterranean applicant countries barely raises a flicker of public or political interest.

In my judgement the Common Market would be transformed by successful membership applications from Greece, Spain, and Portugal combined with associate arrangements with Turkey which were tantamount to membership. Of course, I realize these applications involve protracted transitional arrangements. Even

so, the new club would be barely recognizable. Edward Heath might have thought he was joining the Athanaeum: but now it looks as if it could be The Playboy. However it is not my immediate intention to make value judgements about the respective merits of clubland, but rather to trace indisputable events that, at least partly, illumine the future course of European politics.

The Council of Ministers have authorized Greek membership, notwithstanding the gravest anxiety on the part of the Commission who fear a dilution of the Community by this development. The Portuguese Prime Minister has already set in train a diplomatic initiative to secure membership of the EEC. He has not been rebuffed. President Scheel of the Federal German Republic has given his blessing to potential Spanish membership only last month when he avowed:

Our opinion is that the goal . . . must be Spain's membership of the Community if that is the wish of her democratically elected government. We need Spain as much as Spain needs us.

When the most affluent subscriber and benefactor to the club uses that language no one will impertinently blackball the applicant. Finally Turkey already has an Association Agreement with the EEC which is intended eventually to evolve into membership.

On any reasonable test, therefore, we can assume that Greece, Spain and Portugal will become members of the Common Market and — if mutually desired — so will Turkey. Personally, I welcome the accession of these countries as I believe their membership, amongst other things, will demonstrate the futility of trying to impose common standards and uniform patterns within a Europe stretching from Connemara to Mount Ararat, and from Caithness to Calabria. The only economic and political structure that can encompass a Europe of Twelve(or Thirteen) is one that places emphasis upon co-operation between national governments and correspondingly diminishes the supra-national aspirations of the European Commission and the European Assembly.

A *Europe des Patries* is no longer a fading Gaullist dream: it is the inexorable and unavoidable goal of European co-operation. It is the Europe of tomorrow.

The reason I make this assertion does not derive merely from the accession of these Mediterranean countries. In part, it rests

upon the observation of the workings of the Community once it had been expanded from the original Six to include the United Kingdom, Denmark, and Eire. I have noted that the prospects of Economic and Monetary Union have receded, that the difficulties of the Common Agricultural Policy have intensified and that, increasingly, the Community can only act effectively if it provides for broadly co-ordinated government policies rather than the pedantry of harmonization and uniformity.

Quite frankly, there is no popular inspiration for the creation of new centres of European authority. Scale and remoteness remain the curses of modern government. I have received more letters from constituents advocating direct elections for the Severn Trent Water Authority than I have for the Strasbourg Assembly. Has nothing been learned from the folly of Local Government Reorganization? I take no pleasure in that comment which serves to underline the dangers in creating new structures of government which inspire little popular affection.

Meanwhile, we would do well to reflect upon the prospective change that is going to overtake the EEC once the transitional periods of the applicant Mediterranean countries has been completed. The following data is for 1974, the latest year available, but it serves the purpose of comparison well enough. If Spain, Portugal, Greece, and Turkey achieve membership the population of the EEC would have increased by over 90 millions, or by upwards of 35 per cent. The new members would, of course, substantially alter the balance of wealth within the Common Market, Spain and Greece have per capita incomes around a half of the existing EEC average, Portugal around a third and Turkey around a sixth. Of course there is the expectation that the period of transition will see a narrowing of this gap, but on any reasonable assessment I believe I am entitled to the following two economic conclusions.

Firstly, the likelihood of the EEC achieving economic and monetary union will be rendered well nigh impossible. A moment's reflection will confirm this. Such a union supposes relatively uniform movements in national output and inflation. If the Mediterranean countries are supposed to 'catch up' with current Common Market *per capita* income it assumes a rate of growth wildly beyond that of the existing Nine.

Secondly, the Common Agricultural Policy will become even more difficult to operate. We are used to occasional surpluses of temperate foodstuffs, and are now beginning to comprehend the

political and social difficulties in dealing with an endemic surplus of dairy products. The Mediterranean applicant countries will, however, add a vast new dimension to the problems of surplus. We have already witnessed a deterioration of relations between France and Italy over the wine regulations. That problem — the so-called 'wine lake' — would be made much worse, and I have no doubt similar difficulties would arise over olives and citrus fruit.

There is one further point that needs to be made. The prospective accession of the Mediterranean countries will not only affect the economics of the Community. The whole cultural style will be altered. Latin rather than Nordic attitudes will prevail in respect of taxation. A new geographical and political balance will be struck that will be relatively unfamiliar to the British.

Euro-communism is waiting in the wings. Its stage entry will, I suspect, be as disagreeable to Moscow as to Washington. We shall become used to the prospect of a possible — perhaps probable — Socialist-Communist alliance victory in France; we shall certainly ponder the prospect of Communist participation in an Italian government. Nordic Social Democracy has tended to react away from the Communist party. There are arguable signs that Latin Socialist parties are willing to work in partnership with the Communists. A tendency that will be strengthened by the accession of the Mediterranean states.

Notwithstanding these difficulties, which are the reasonably predictable outcome of commitments already made. I would not wish to debar the Mediterranean countries from EEC membership. As Margaret Thatcher said recently in Rome, 'the time has not yet come — I hope it never will — when the European Community turns inward upon itself.' (Rome 24 June 1977).

It seems to me wholly desirable that Conservatives should welcome the prospective enlargement of the Community. In the first place, I think it an absurd delusion of our importance to believe that we could veto entry and continue with our own membership unaffected. Secondly, the political and military defence of the southern flank of Europe requires Spanish membership of NATO and the NATO Mediterranean countries' membership of the EEC. Thirdly, this very expansion of the Community will require us to make a calm assessment of Euro-Communism rather than to flee or flinch from it as an inexplicable and alien phenomenon. Finally I believe such membership will compel a most fundamental re-assessment of the

institutions of the European Communities.

The Treaty of Rome is a written constitution which assumes common standards of behaviour. Had that Treaty been confined to the original Six it is doubtful if it could have accommodated the volatile economic and political behaviour of Italy. I am certain the Treaty cannot prescribe the political forms to govern a Europe of Twelve.

I suggest the following formula could be the most pragmatic resolution of the problems of enlargement. First, the Community should make greater use of the thrice yearly meetings of the heads of government. Consequently, the general Council of Ministers' meetings would have a somewhat diminished role. National parliaments and their administrations would be the effective and democratic agencies for executing Community decisions. The European Commission would have a modest role and budget. The Strasbourg Assembly would, meanwhile, have a non-legislative but, nonetheless, quite valuable role in monitoring the performance of the Commission. Its functions would be analagous to the Public Accounts and Expenditure Committee at Westminster.

Of course, this would necessitate a new draft of the Rome Treaty. History demonstrates that continental European countries have frequently changed their written constitutions. Unhappily these occasions have all too often been preceded by deep political discord and by violence. The warnings are writ large.

Would it not be an essentially sound Tory instinct to argue that now is the time to reconsider the evolving pattern of the enlarged Community? Does not the organic growth of the new Europe cry aloud for the minimum external legal constraint, and the maximum reliance upon empirical experience. The need for debate is urgent. The topic cannot for ever be muffled in silence and indifference.

Energy for All

It is natural that much public interest has been aroused by President Carter's recent statements on the question of energy. The United States — particularly as an energy consumer — dominates the Western world. Even so it is a curious commentary that there is no corresponding and widespread public debate on our own energy problems in Britain. This is hardly the fault of Tony Benn. He has applied his considerable talents for publicity to this topic, but to no avail.

It is all the more curious because the British have an enviable freedom to discuss this matter without the oppressive backcloth of rapidly diminishing reserves of fossil fuels. And I use the word 'British' quite deliberately: the Scots may have the oil, but the English certainly have the coal. Perhaps there is a perverse determination not to "count our blessings", but it is a determination I shall now seek to challenge.

It seems to me there are three areas where public debate can proceed with the prospect of determining the political choice that is available to Westminster. These areas concern the pricing of energy; the significance of nuclear power, and finally the scope for asserting national interests within the framework of the overseas alliance to which we are committed. In fact, there is a thread that strings these topics together.

There is no "shortage" of energy. We confound and mislead ourselves when such a term is used. Energy, no less than food, is a basic condition to our continued existence on this planet. This very factor ensures that all human ingenuity will be turned to develop new techniques in the supply and use of energy. There is no need to employ politicians to stumble across that obvious fact.

The challenge facing the United States and the Western world is that the present sources of supply and patterns of consumption cannot persist without a dramatic increase in price which will

reconcile a new balance in supply and demand. Such a reconciliation would — and, in my view, inevitably will — be the cause of great social and economic dislocation. The quintupling of the oil prices after the Arab-Israeli war was an excellent example of the upheavals that Western politicians fear. And yet have we not accommodated to that seismic shock rather well? The private banking system was extraordinarily successful in cycling the petrol-dollars represented by the vastly enhanced wealth of sparsely populated Arab states.

Furthermore that price rise has rendered economic the development of other energy resources. Indeed, had it not been for the OPEC action in 1973, I doubt if any North Sea oil discoveries apart from the Forties Field would yet have been developed to production stage. The price mechanism has a wonderful and pervasive impact. It is the true reconciler between supply and demand, and above all it is the most effective agent for energy conservation and for the quest after diversified energy sources.

My first precept, therefore, is that the Secretary of State should encourage the maximum price flexibility and greatest price realism in the production and marketing of energy. The government is in a singularly powerful position in this respect. The pricing policies of the nationalized industries are open to political influence. In my view this is a regrettable but unavoidable consequence of the present balance between the private and public sectors of the economy. My request, however, is that the government should not intervene to hold down the prices of these industries. Fortunately, there is now a general consensus that rejects the rigging of electricity prices.

It is vital on two counts to maintain this consensus over realistic energy prices. The energy industries must be able to earn substantial margins that will cover not only the development of new sources of supply but also to enable those industries to bear the heavy costs of environmental protection that will increasingly attend such developments. This environmental argument applies equally to the Oil Corporation seeking to limit the consequences of a North Sea production platform blow-out as to the Coal Board being obliged to minimize the desecration of the countryside when engaged in open-cast mining. Environmental protection costs money. The initial charge will fall upon the relevant energy industry: but that industry must be allowed a pricing freedom that will enable it to reflect those environmental

costs. If such costs, when translated into price and return on assets, affect the consumption of energy it is a helpful yardstick by which society is making known its value judgements.

There is a second reason for realistic energy pricing. It assists conservation and allows the least painful adaptation to new situations. The empirical evidence since 1973 suggests that the consumer is price-sensitive to energy costs. This valuable and neglected factor should surprise no-one. My hypothesis supposes that Britain could be moving to a situation where there would have to be a major social and economic upheaval to accommodate a revolutionary form of energy. That revolutionary form could be the nuclear fast breeder reactor with all the attendant challenges it represents to personal and social freedoms. Realistic energy prices will buy valuable time before the politician commits society to such a fateful step.

Alternatively there could emerge a growing use the benign sources of energy — particularly if solar heating were successfully developed. Over time this might represent a significant challenge to the whole concept of electricity power generation through a national grid with all the attendant manufacturing and trade union interests. Let no one underestimate the significance of such a change, or the well orchestrated cries of anguish that would greet it. Once again realistic pricing policies will give warning of and accommodate such a change far better than the politicians operating by administrative fiat and in response to a commercial lobby.

It will follow from these observations that I am no friend of the concept of 'thermal parity'. This pre-supposes that there should be broadly similar consumer prices for various forms of energy — irrespective of cost — and that the politician using the mechanism of central planning would allocate fuels rather than having their consumption and depletion determined by the random and imperfect forces of market pricing. Indeed, behind every innocent call for 'an energy policy' there lurks the hidden thought — or more likely half thought — that government should be allocating energy resources. 'Thermal parity' is the sure way to stifle consumer preference, and thereafter it becomes that much easier to require the suppliers of energy to have regard to Whitehall rather than the High Street.

Any consideration of pricing immediately leads me to consider the dramatic impact that could be made to our energy supplies by a significant nuclear contribution. At the moment nuclear

power accounts for approximately eleven per cent of the electricity produced for the national grid. Taking into account the commissioning of stations now under construction the figure is likely to rise to thirteen per cent by 1980. Parliament was recently supplied with evidence which suggested that nuclear power costs were extremely competitive with electricity generated by fossil fuels. At first sight there is bound to be some incredulity as to why there is not to be a rapid extension of the nuclear programme.

The reasons for doubt, hesitation, and delay are clear. They do not derive from the strength of the coal lobby or the internecine and bewildering disputes over the choice of thermal-reactor design. The politician is conscious of the trusteeship he holds for future generations.

There is a deep political unease over the longer term social and environmental consequences of a nuclear programme. This is not a British disease. One has only to regard the Federal German Republic. Recent court restrictions on proposed nuclear power stations at Wyhl and Brokdorf have placed the nuclear programme in the centre of turbulent political controversy.

In the United Kingdom there are two immediate issues that require political judgement. The first concerns the licensing of a reprocessing plant at Windscale for spent nuclear fuels. This is now a matter for a Department of Environment enquiry, and in my view it was wholly proper that there should be careful and public deliberation before sanctioning this project. Indeed, the very availability of the spent fuel for such reprocessing is under question. The development of the Japanese nuclear industry — which is expected to supply business for Windscale — now turns upon the policy of President Carter and the willingness of the Americans to supply the essential enriched uranium which will eventually become a spent fuel.

At this vantage point — and given the uncertainties that now attend nuclear relations between the USA and other industrial countries — we can perceive there would have been no virtue in the hurried development of Windscale when the project was first mooted a couple of years ago. Indeed the whole episode underlines the validity of proceeding along any nuclear path with the utmost prudence. Delay in nuclear affairs may often have a beneficial consequence: it rarely degenerates into the vice of sloth and culpable procrastination.

The need for reflective caution is even more imperative in

respect of the nuclear fast breeder reactor. I only wish to emphasize the premium that has to be paid by a society committed to fast breeder nuclear power. The dangers inherent in the production and transportation of plutonium will require armed policing on a scale hitherto unappreciated. I have a deep instinct — prejudice if you will — that the technology will begin to master the society it purports to serve. Furthermore, fast breeder nuclear power will perpetuate and intensify the significance of the national electric grid in the energy requirements of our nation. Faster breeder nuclear power could become an energy Leviathan. I cannot believe this is advantageous.

The dominance of the national grid has rendered this nation vulnerable whenever industrial action affected the grid itself, as with power engineers, or the major suppliers of raw material to the grid — as with coal miners. As a general rule I would advocate that in a modern industrial society there is need for greater self-reliance and independence rather than the development of specialist skills and operations of scales that create a high degree of interdependence. Perhaps this is no more than a politician's uncertain and instinctive endorsement of Schumacher's thesis that 'small is beautiful'. At least I am content that there should be the most calm assessment of the necessity for Britain to tread the fast breeder nuclear path, and a detached appraisal of the undoubted hazards that would attend any such journey.

This brings me to my third observation. Britain is in a particularly happy situation in respect of energy supplies. The pressure on France — or Japan or Germany — to take the nuclear option is far greater than it should be in the United Kingdom. I have already made a note of reservation on the division of fossil fuels should the Union evolve into a different set of relationships between Scotland and England.

Within the context of the EEC we have a powerful hand whenever the cards are played at meetings of the Council of Energy Ministers. We should make it quite clear that the oil resources of the North Sea — no less than our mainland coal — is part of the national patrimony. We have welcomed, and should continue to welcome, international finance for the development of North Sea resources. The British have never been insular in these matters, indeed until recently we have wisely accepted the widest possible financing of the North Sea rather than restrict the development to United Kingdom or EEC interests. I devoutly trust that the emergence of the British National Oil Corporation

will not mark a reversal of this policy.

Furthermore, I trust that our dominant position as an energy producer within the EEC will be used to require a liberal Community attitude on these matters. There is a danger that the protectionist attitudes of the Common Agricultural Policy could be transferred to energy. The reason is simple. Powerful lobbyists in continental Europe would like to see the price of imported energy hoisted to a level that protected the hazardous and costly development of nuclear power. Such a philosophy is alien to British national interests and to the original free-trading aspirations of the signatories of the Treaty of Rome. We must be prepared to have the courage of the convictions that others have discarded.

From the British point of view there is every advantage in having the widest debate — nationally and abroad — about the problems of energy. The pattern of supply and distribution of energy is germane to the very organisation of an industrialised society. I believe there is a profound case for using the pricing mechanism to reconcile supply and demand and to accommodate the substantial changes that are taking place in the technology of energy production. Secondly, I believe that the British politician should proceed with the utmost caution before making vast commitments to a nuclear energy programme which could only further centralize power and decision taking in our society. Indeed, by contrast the politician should welcome the development of our very modest benign energy sources because they hold some prospect for dispersing rather than concentrating the sources of supply. Thirdly, Britain is in a happy position to enjoy and exercise a "fuel freedom" at home, and to use her authority to maintain liberal energy policies within the EEC.

My analysis should appeal to those who favour an open society: to those who prefer to see power dispersed rather than concentrated: to those who think the price mechanism is profoundly superior to the politician when deciding energy resource allocations and conservations. It should appeal, finally, to those who think Britain has a valuable national asset which authorises her to speak abroad with a sense of measured defiance. Indeed the variety of these assertions could make for a keen debate — although the combatants might not fit too comfortably within the traditional battle-lines at Westminster. The sad truth is that there is a profound difficulty in persuading the public and the media that energy problems really do need debating on any philosophic level whatsoever.

Open Trade :

The European Opportunity

It has long been the objective of British governments to promote unimpeded world trade. That objective has been common to both major parties, not least because foreign trade has featured so prominently in our total national activity. Indeed at the time that Britain sought membership of the European Economic Community in the early 1960s it was emphasized that our membership would consolidate the 'outward looking character' of the Community. No voice was then heard from the British business interests that membership of the Common Market would enable us to join a tight trading club and put up the shutters of quotas, levies, and tariffs against the world outside.

It was always recognized — and honourably from the outset — that there was the danger of European protectionism or autarky. Russell Lewis, a former employee of the European Commission and a former executive with the Conservative Political Centre, argued in a perceptive pamphlet entitled *Rome or Brussels* that the Common Market could either be enthused by the free trade philosophy of the Treaty of Rome or become tainted by the bureaucracy and *dirigisme* of the Euro-planners of Brussels. Like almost all supporters of British membership of the EEC he favoured Rome rather than Brussels, and believed that Britain's presence within the Community would assure its free trading future.

The question abides. Has such optimism been well placed? In my judgement the answer is not only 'No', but there are disturbing — but perhaps predictable — signs that British industrial and commercial interests are trying to use their influence to ensure that trading barriers are raised against the non-European world. In a phrase — an example of *franglais* now authorised by Larousse — there is the emerging danger of a *Europe des lobbyists*.

It may be argued that this is a profoundly pessimistic and cynical analysis of recent EEC developments. Indeed, I confess my ears are still ringing with the noble phraseology of the Downing Street Declaration after the June 1977 summit of OECD heads of government which avowed:

Policies on protectionism foster unemployment, increase inflation and undermine the welfare of our peoples. We are therefore agreed on the need to maintain our political commitment to an open and non-discriminatory world trade system.

All too often in political life the rhetoric bears little relationship to the reality. And so it is with free trade. According to the U.S. Treasury Secretary, Mr Blumenthal, free world trade is seriously endangered. (Financial Times, 9 July 1977). There is a very real threat that the European Community — and indeed the western world — will retreat into protectionist dugouts. It is my plea that this should not happen, and — above all — that British political influence should be used decisively to promote an EEC open trade policy.

I now intend to demonstrate the evidence of the dangers of Common Market protectionism already in being and in prospect. The point was put in a most compelling fashion by a respected British legal commentator, Mr A.H. Herman, on 11 May 1977. He then wrote:

The importance of competition for economic efficiency and political freedom is taken for granted in Britain and has never ceased to be taken as an article of faith in post-war Germany. It also remains enshrined in the European treaties as their fundamental instrument for creating a Common Market for industry — though not for agriculture. But the reality is different. Competition is fast being replaced by regulation by which the bureaucracies of government, big companies, and trade unions seek to avoid the consequences of the recession.

He further commented:

The crisis of the European steel industry has prompted the Commission to move towards a quota and price cartel, extending thus the principle of regulation so far reserved for agriculture into the area of industry. This development which truly raises the issue 'What kind of European Community?' should give rise to serious national debate.

The problems of the Common Agricultural Policy have been well rehearsed: but they are a useful starting point for any examination of the EEC trading practice and philosophy.

A fascinating description of Community techniques was traced by Commissioner Tugendhat in a speech to the European Movement on 2 May 1977. He said — in respect of European farm prices — :

The debate takes place almost exclusively between Agricultural Ministers, who understandably conceive their primary responsibility to be to support their different national farming lobbies. The consequence of this is that the recurring pattern of negotiation in Agricultural Councils which has emerged over the years is one in which Agricultural Minister X consistently accepts substantial price increases for the particular products of special concern to Agricultural Minister Y, so long as Minister Y similarly concedes substantial rises for the products which most acutely worry Minister X.

Well, I suppose it is some comfort to have our fears confirmed by so eminent an authority. What Commissioner Tugendhat has described is a form of mutual back-scratching that is known in American politics as 'log-rolling', the consequence is the highest common factor of agricultural special interest. It certainly has facilitated the emergence of recurring, and perhaps endemic, Community food surpluses. Is there a danger that this Common Market farm price formula could be the prescription for a most pervasive form of agricultural protection? I fear the answer must be 'Yes'.

It was always acknowledged that British membership of the EEC would involve a diminution in our imports of temperate foodstuffs and sugar. Even so special arrangements were made to ensure that there would be limited but guaranteed access to our market for Commonwealth sugar producers and New Zealand dairy products. It was a highly qualified and tenuous life-line to the realities of the world food market outside the barriers of the EEC.

Predictably this trading link in foodstuffs is now under attack. Last month the assault on New Zealand dairy imports was well orchestrated. Joe McGough of the Irish Dairy Board commented: 'It seems incredible that a non-member can enjoy these special favours' and Mr Joergan Handberg of the Danish Dairy Board echoed 'We know that New Zealand will fight for a renewal of these supply allocations but it must be right that the British market is reserved for EEC suppliers'. The British lobbyists, as represented by Mr Ben Davies of the Dairy Trade Federation, also joined in this miserable dirge.

I do not believe any Conservative — as a matter of honour —

would wish to repudiate the agreements that were concluded for extra-Community supplies of dairy products and sugar at the time of British accession. Furthermore, I am convinced that any popular based party must perceive that public and consumer interests are served by open trade, not least in foodstuffs. The Tory party, it was once concluded, is 'national or nothing': it certainly can have no future as a faction for commercial lobbyists.

I dwell upon the problems of agriculture because there, the dangers of protectionism can be most easily demonstrated and because a Common policy has been in operation for quite a number of years: again, to quote Commissioner Tugendhat, 'the Common Agricultural Policy . . . is one of the main foundations of the Community itself.' If Britain could bring a liberalizing influence to European Trade Policy we would expect to see some evidence in agricultural imports. There is no merit in being blindly dogmatic and hostile in respect of the Agricultural Policy, but on any count one must confess that the liberal hopes expressed a decade ago have been falsified.

I fear, moreover, that protectionist techniques and philosophy will infect other spheres of economic activity. There are warning signs. Recently the European Commission undertook responsibility for Community overseas trade and dumping policies. I detect that national governments have now become more vociferous in denouncing the trade practices of Asian, Iron Curtain and Latin American competitors. There is probably a fairly simple reason for this: namely, that national ministers wish to appear that they are fighting hard for the disaffected national lobby and dare not demand less industrial protection than they think the Commission will provide.

It does mean, however, a more strident rhetoric in the debate about industrial protection and an increased level of expectation on the part of the lobbyists. I have no reason to suppose the Commission will prefer the 'dirigiste philosophy of Brussels' to the 'free trade philosophy of Rome', but I am uneasy that there will be many pressures within the Commission itself to create a protectionist Europe. There is a deep sense of political malaise affecting those who are dedicated to secure the integration of the nine constituent Community nations into a European state. Varying standards of national inflation and economic growth and subsequent exchange rate instability have mocked any attempts to secure Economic and Monetary Union.

The Euro-planners must look elsewhere to secure their super-state. External threat is always a handy weapon to forge unity at home. Half a generation ago there was the fashion to fear *le défi Américain*: the threat of American technology perceived by Monsieur Jean-Jacques Servas Schreiber. That fashion seems to have changed. We don't now much feel that we are colonized by IBM — or Coca Cola! Even so I have no doubt that we are at the beginning of a fashion when there is perceived *le défi Japonais* — and it will be argued that we must create a common external barrier against the Japanese whilst at the same time promoting European-scale rationalization and reorganisation of our industries. The Commission and Euro-planners have a certain vested interest that this should happen as it could extend the role of Community institutions at the expense of national government. It would, however, be a blue-print for protectionism that foreswore the open-trading philosophy of the Treaty of Rome.

It is, therefore, not a moment too soon for the British government to make quite clear where it stands on these issues and how it intends to use its authority and influence to sustain and promote European Free Trade.

It is, of course, perfectly obvious that the whole balance of world trade has been affected by the quintupling of OPEC oil prices after the Arab-Israeli war. Neither supporters nor opponents of British membership of the Common Market could have anticipated that there would be such a dramatic shift of wealth into areas of Africa and the Middle East where Britain had strong traditional trade links. Inevitably that shift will produce new areas of manufacture, and the developing economies of Taiwan, Brazil, Venezuela and Korea give witness to that. Many traditional European export markets will be lost to local manufacturers. The challenge will then come to the European market. Eventually our own consumers might have the opportunity to purchase competitively priced products of the developed Third World.

It is something we have experienced — to a degree — with textiles, footwear, electronics and motor cars. It is a situation in which the industrial giants of a recent yesteryear become the ailing dinosaurs as they try to counter so severe a challenge. Indeed, there is some evidence — to which I would add my own instinct — that smaller companies are more resourceful in adapting to these revolutionary circumstances than their

prestigious giant neighbours.

I hope that the development of Third World manufacture is not seen as a threat to the European Community, but rather that it is seen as an opportunity for more open trade and thus a means whereby the Afro-Asian countries will have an increasing identity of interest with Western Europe. I do not subscribe to the old slogan 'that if trade cannot cross frontiers when Armies will'; but I do believe the expanding commerce will affect the success with which the Russians can penetrate Africa and Asia. Similar considerations apply to our trading relations with Iron Curtain countries for, to echo Margaret Thatcher, 'We must try to make it easier for the countries of Eastern Europe to choose their own policies and their own trading partners in accordance with the wishes of their own people'. (Rome, 24 June 1977).

There is, then an imperative for an open trade policy which, nonetheless, pays regard to the problems of dumping and politically directed commerce. A case can be made for introducing anti-dumping legislation, as recommended in a recent report by Dr Peter Lloyd published by the Trade Policy Research Centre. (*Financial Times*, 7 July 1977). Such defences are legitimate to protect the open-trade system. They have featured in our own national trade policies: but it is vital that they should operate against the background of a determined will for free trade.

In such circumstances consumers, entrepreneurs, trade unionists and businessmen, operating by their own standards and judgements, will provide the new balance of forces between industry and commerce, manufacture and services, that are needed to adjust the national economies of the EEC to the rapidly changing demands of the international market place. That process of change is unlikely to be beneficially assisted by the heavy hands of the politician or the Euro-planner.

In a speech by Sir Donald Maitland, the United Kingdom Ambassador to the European Communities talking to the Institution of Civil Engineers in April, he declared:

European industry will have to be adapted to ensure that our products meet the demands of the world market as it will be ten, fifteen years hence.

The words sound innocent enough; yet there is the echo that the adaptation cannot come of its own, but 'will have to be' with the undertones of public planning. In best *communautaire*

language the 'gentleman in Whitehall knows best' will be translated to read 'Les ronds-de-cuir de Bruxelles sont juges de tout'. British politicians must be vigilant in watching how 'adaptation' proceeds. They should not wish our national tradition of and interest in open trade to become blighted by successful industrial lobbyists.

There are at least four areas where there is some attempt to formulate a Common Industrial Policy in the face of overseas trade competitiveness. They are shipbuilding, steel, textiles and aerospace.

There has been little evidence of a Common Shipbuilding policy, and to date it is noteworthy that the various national aids to shipbuilding have been confirmed. This has been a disappointment for those who hoped the Brussels Commission would rescue the British public from the interventionist activities of a Labour government subsidizing certain sectors of shipbuilding. The disappointment is understandable; but the incident does suggest that the open trade ardour of the Commission — promised in the 1960s — has cooled by the 1970s.

The recent initiative by Commissioner Davignon in respect of steel merits particular attention. The 'Davignon Plan' provides for the imposition of minimum prices for certain steel products. The price levels imposed are not unreasonably high, but the principle of minimum price for industrial products needs the most serious questioning. Once the concept of a minimum price is accepted there will be a concerted effort to secure a price level that will justify levels of investment that were committed and executed on a mis-reading of the likely market for steel and steel products. 'Minimum price' will invoke the ugly twin of market rationalization. There is already the haunting spectre of a Community steel cartel.

The Community policy in respect of textiles will have to be negotiated within the context of the Multi-Fibre Agreement. National textile lobbies have been vociferous in seeking to control and restrain the impact of textile imports from the Third World. It will be a major test to see whether the Community institutions are devoted to securing an open trade rather than a protectionist formula within the Multi-Fibre Agreement negotiations.

Finally there is the question of a policy for aerospace. This is particularly relevant since it has dying echoes from the times when Jean-Jacques Schreiber argued that Europe was likely to

fall under American dominance. We can now perceive that so important is the United States as a customer for major civil aircraft that it is far better to seek collaboration with American manufacturers rather than create an artificial and rival European industry. There is also a reciprocal advantage for the Americans to seek partnerships with the aerospace industries of Western Europe. I can do no better than quote the editorial of the *Financial Times* on 29 April 1977.

Thus, the concept of a common front against the Americans — a concept which has influenced the European Commission's thinking about the industry is unrealistic. Europe needs the American manufacturers, just as they, to a lesser extent, need Europe.

It is, of course, quite unrealistic to trade any kind of European trade policy from the limited experiences of steel, textiles, aerospace, and shipbuilding. The debate is only just beginning. Even so, I have a fear that a swift passage of events and the successful influence of industrial, commercial and agricultural lobbyists will leave the public interest unheeded.

Certain broad principles can already be identified which the Tory Party should proclaim as its own.

First, Britain has a particular interest in an open trade EEC since overseas trade outside the Common Market accounts for over 20 per cent of our national output and because these export markets contain many rapidly expanding oil rich economies. Secondly, there is a total European interest in securing widespread trade with Afro-Asian and Latin-American countries in order to help counter Russian influence. Thirdly, there should be the opportunity for British and, indeed, continental European consumers to have the advantage of economically and competitively priced foodstuffs and manufactured goods from the world at large. Fourthly, one must note that Brussels government is particularly attractive to the managerial élite who control large scale and trans-national companies. This affection, probably reciprocated, could be harmful. There is the possible danger of the use of cartel and quota to the advantage of the influential lobbyists but to the detriment of the consumer.

Meanwhile there proceeds the debate about Community institutions and the determined haggling which is dignified as 'European policy'. As a very rough-and-ready rule of thumb there is a natural shared interest between Britain and Germany in wishing to see the widest extension of free trade. Certainly it is

to Bonn rather than Paris that we should look for allies in the cause of economic liberalism.

There is, alas, no guarantee whatsoever that the activities of the European Commission and the terms of the Treaty of Rome will confer upon us a liberal European trade policy. It is something that has to be fought for by national politicians. It is not a day too soon for the Tory voice to be heard — loud and insistent. We should not be fearful of being a people's party; or of speaking out against powerful commercial and industrial interests wherever they seek the privilege of unjustified trade protection. Such language might evoke memories of the Tory crusading liberalism of the 1950s: certainly the success of that era provides no small encouragement.

A Kingdom United ?

For a generation and half we have conducted our political debates within the framework of a United Kingdom. The bitter Irish Home Rule controversies have become fading memories. Furthermore no Englishman recollects that Wales and Scotland were once infected by the spirit of nineteenth century nationalism. Yet it was so. Once again we need to acquire a sense of history and perspective to appreciate the political phenomenon that is represented by the Scottish National Party and Plaid Cymru. The constitutional structure of the United Kingdom is under challenge. It is a situation that calls for political realism. It requires an analysis that underlines the true — if harsh — and fundamental nature of the choice. Above all it does not require an exercise in casuistry, in finding the fudged formula which will buy time for a few months or a parliamentary session.

Let me first consider the genesis of the present mood of Celtic nationalism. I will confine my observations primarily to Scotland since I believe that country exhibits the problem most vividly. I hasten to add that I do not disparage or underestimate Welsh national sentiment, nor indeed do I neglect the sense of distinctiveness that impels many self-professed Unionists paradoxically to desire a powerful Northern Ireland Stormont government.

What, then, are the factors that have given rise to the successes of the Scottish National Party? Without doubt there are a host of influences which explain the re-birth of Scottish national sentiment. I suspect that future historians will have no greater success than contemporary commentators in correctly identifying and assessing them.

Meanwhile I will name merely four significant influences in the rise of nationalism. Oil has provided a powerful catalyst. The former proposition that Scotland could not afford political and

economic independence was always suspect and it is now quite certain that there is a popular belief that oil revenues do offer Scotland considerable advantages, and that she could "go it alone".

I doubt, however, if that is the sole motive, indeed, I even wonder if it is the major one. There were certainly signs of a growing support for the Scottish National Party before the oil discoveries. This support symbolized a reaction against a United Kingdom that has declined in world affairs. London was no longer the hub of the Empire: it was, rather, the headquarters of a distant and growing bureaucracy. The political and social revolutions that transformed Empire into Commonwealth inevitably raised doubts about the Union that had secured Britain herself. The point was well made on Radio 4 in May 1977, by Bob Kernohan, a former Director General of the Scottish Conservative Central Office. He observed:

... the strength of working class Conservatives appears to have declined. I suspect that in Scotland, perhaps more than elsewhere, that is closely linked with the disappearance of the British Empire.

Thirdly, we should not underestimate the growing disenchantment with government itself. The post-war decades have seen a steady expansion in the ambitions of politicians. Perhaps inevitably the growth in government has led to a concentration in power and authority. This has been matched by the seeming inability of government to respond to diverse local situations. In England this produced a substantial Liberal electoral harvest in "paving-stone politics". In Scotland the Nationalists, at least in part, were beneficiaries.

Finally the growing trend to transfer political decision-taking to continental European centres is much more likely to sustain the National Party for the future than to explain its recent successes. It could well accentuate the remoteness of government. There are two current issues which illustrate the tensions that could arise. The object of the European Commission is to obtain broadly harmonized practices throughout the Common Market. To that end there have been attempts to formulate a Common Fisheries Policy and also to obtain a Community rationalization of the oil refining industry. Opposition to these EEC proposals goes far wider than Scotland. Even so, fishing and oil do have a special political significance north of the Tweed. There will be the most determined resistance by Scottish

fishermen against Brussels rule limiting exclusive national waters. Secondly there is the widespread hope that the North Sea oil discoveries will lead to increased Scottish employment in oil and petro-chemical refining. Such an objective could clash with recent Commission proposals on this subject which — not unnaturally — are concerned about the present low use of continental refining capacity rather than its further increase by developments in Scotland. These are but two instances of major policy issues that could be exploited by the SNP in its self-appointed role as untrammelled spokesman for the national interest.

There is, then, ample evidence to suggest that Scottish Nationalists have a significant basis of past and prospective support. No-one should speak confidently upon what that basis will yield. The local elections in May 1977 did not vindicate Nationalist hopes that they would sweep Labour from Glasgow and Clydeside. Nonetheless, the present success of the SNP does present a challenge to the Conservative party.

The matter can be simply put. At the next election our aim is victory — clear and unqualified. The nation needs the consistent and calm government that can only be provided by a clear parliamentary majority. Unless the Conservative party can improve its Scottish fortunes it will need successes in England that match the levels of 1959 to provide a majority comfortable enough to weather the stormy waters of by-elections. The blunt truth is that Scotland is a key factor in Tory electoral fortunes. In a sense, and perhaps more so, the same electoral logic applies to the Labour Party.

What then of discussions over recent months and years concerning the relationships between the component nations that comprise the United Kingdom? First it is important that we should shed one powerful illusion. The debates which attended the ill-fated and moribund Scotland and Wales Bill were only nominally about devolution; in substance they were about separation. The national boundaries of Wales and Scotland made little sense or logic for devolved administration. In truth these national boundaries were being used for "devolution" because the political act was designed to forestall and stifle emerging national and separatist sentiments. Furthermore the Assembly designed for Edinburgh had such considerable autonomy that it required devolved *legislative* powers.

This highlighted the whole problem of the division of law

making powers between Westminster and other parliamentary Assemblies. The Scotland and Wales Bill represented an inherent challenge to the unitary state. Margaret Thatcher in indicating the principles underlying the Bill when it received a second reading, diagnosed that the proposed Assemblies would create an unstable legislature. There are many who share Mrs Thatcher's instinct that the constitutional innovations would have to be either much more modest or alternatively much more radical to impart any sense of permanence. Significant constitutional changes could excite rather than assuage nationalist sentiment. We should do well to remember Parnell's assertion that 'No man has a right to fix the boundary of the march of a nation.'

Will there be major changes in the legislation now promised for the 1977/78 session? I doubt it, although separate Bills for Scotland and Wales are likely to be presented. What is certain, however, is that more people will come to realize the fundamental character of the constitutional changes now proposed.

There are some who favour a more radical policy and, thus, propose a Federal United Kingdom. Such an argument merits serious consideration but I devoutly hope, on four counts, it will not be adopted by the Tory party.

First, there would be an obvious imbalance were the federation to be based upon the four component nations of the United Kingdom. England would account for 80 per cent of the population, although some attempt might be made to remedy this by foisting regionalism upon the English. This would encounter two formidable obstacles. In the first instance, there is minimal support in England for the creation of either directly elected or nominated regional authorities; the memories of local government reform are still green. There is a deep apprehension that regional government will add to, and not diminish, the burden of bureaucracy. The regions would often be an artificial creation: for example, I simply cannot believe the citizens of Cumbria will look to Tyneside as a focal point of regional loyalty. Finally any such proposal assumes that Scotland is seeking a status approximate to that of an English region. I believe this misreads the Scottish mood.

My second objection to a federal constitution for the United Kingdom is that it would be working against the normal grain of federalism. Federation usually comes about when a number of separate political entities wish to share common institutions. That is how the English speaking federations have come about:

and they have sought to maximize the common identity of those concerned. Federalism in the context of an existing unitary realm is a quite different proposition. The device is intended to placate those who seek to minimize rather than to maximize a common identity.

Thirdly there is the developing nature of the EEC. If power is being increasingly transferred to continental institutions, such as the Council of Ministers, the Federal solution is unlikely to disarm Scottish separatists. It is noteworthy that agriculture was excluded from the Scotland and Wales Bill — presumably because irreversible policy decisions or compromises would be decided at Brussels. A federal Scotland would have no voice in the Council of Ministers, when topics such as oil, regional policy, agriculture and fishing were being discussed. Scotland would continue to aspire to a status analogous to Denmark or Eire rather than to that of federal Bavaria.

The fourth objection to the federal solution is that it has only modest support in Scotland and practically none in England. There really is a limit to the extent that we can experiment with our forms of government like laboratory politicians. There must be a groundswell of opinion desiring such a major constitutional change — "full-hearted consent" if I may use the phrase. On all the evidence there is no such popular desire throughout Britain to replace Westminster by four national assemblies or, alternatively, even more regional assemblies under the aegis of a Federal Parliament.

What, then, should be the appropriate Tory response to the present constitutional challenge? What general principles should guide political tactics? I suggest there are three broad precepts. First, there is a duty to present the choice as it really is: namely the option between a unitary state or else separation. There is an instinctive British desire to find some compromise — British politics rest heavily upon honest and workable compromise in many areas — which will provide a "moderate" settlement. The constitutional arrangement of the United Kingdom is a harsher topic: there is no half-way house to independence. The English, of all political persuasions, are entitled to say to the Scots (or others) that the choice really is between the United Kingdom or separation. However if the English are entitled to set the question they must remember that it is the Scots who will provide the answer. A nation cannot be constrained within the Union against its will.

Secondly the Tory Party must recognize that the *status quo* is not a practical proposition for Scottish Conservatives; there must be a conscious attempt to bring government closer to the people. This precept applies to the entire United Kingdom: but there are specific Scottish institutions that could be reinforced within the framework of a unitary state and the legislative supremacy of Westminster. There is nothing sacrosanct about Scottish legislation and debates having to be located in London. We would be wise to remember, however, that any Assembly dignified by popular franchise will have ambitions to rival and dispute the authority of a unitary parliament.

The third, and possibly most difficult, precept is for the Tory party to realize the implications of having posed a question of "unitary state or separation". There could emerge a powerful Scottish National Party sustained by a popular sentiment for Scottish home rule. This spectre could haunt both major parties, for both are dedicated to the maintenance of the United Kingdom. A referendum could help clarify the nature of the choice. I only plead that the Tory party remains sensitive to the political situation that would attend upwards of thirty-five Nationalist members of Parliament in a finely balanced House of Commons.

Ultimately the "devolution" battle will turn upon matters of deep instinct — tribal loyalties, if you will. There is a discernible mood of Scottish nationalism. How best can we re-furbish a sense of British nationalism? We should not despise the role of emotion in politics. The constitutional issues of the United Kingdom will not be determined merely by economics and accountancy — even over oil revenues. Nonetheless the revival of Britain will proceed from a sense of personal and national economic success. That is the first and indispensable precondition for the renaissance of British nationalism. And such success must be matched by a determination to pursue national interests in the spirit of calculated but measured defiance. Economic success and political style can provide this country with the most certain antidotes to the recent growth of Welsh and Scottish nationalism. They can provide a remedy that no amount of constitutional tinkering can even begin to match.

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