

# The American Counter Revolution

*Speech given at the Annual Dinner of the Harvard Business School Club, 15th April 1981*

SOME YEARS AGO, here in New York, I was told a story which explained a lot about modern British history. I had been invited to lunch on a Sunday at the Carlyle and the other guest was Lord Poole. At that time Lord Poole was head of Lazards in London but after the war he had been Chairman of the British Conservative Party. Poole explained that when the Conservative Party lost the General Election in 1945, he and two of his colleagues, Harold Macmillan and Rab Butler, decided to work out a new post-war strategy for the Conservative Party. He went on to explain that for them the fundamental question was not whether Britain would be Socialist or Conservative but whether a socialist Britain would be best administered by a Conservative government or by a Labour government.

It seems that they had accepted that the tide towards socialism was irreversible and that they should adjust to accommodate it.

So under successive governments Britain embarked on a programme to establish an egalitarian welfare society. State monopolies were created by nationalisation covering steel, coal, aircraft, dockyards, utilities and many other activities. The role of government was expanded and the State took over the great majority of the nation's education, health and social services. The State was to care for its citizens from the cradle to the coffin. By the late 1970s the State became responsible for 60% of the gross national product and this proportion was still rising. One working person in three was employed by the State. Indeed for a number of years the creeping de-industrialisation of Britain was hidden because as people lost their jobs in the productive sector more were employed in the social sector. The highest levels of taxation reached 83% on salaries and 98% on income from savings. This was because taxation was no longer used just as a means to harvest revenue but also as a tool for social engineering in the search for equality. The proof of this is that if the top level of taxation had been reduced to 50%, the apparent loss to the State would have been only 0.8% of the government's total expenditure.

Such a programme changes society fundamentally. I will not dwell on the economic consequences because the economic decline of Britain during those years is well documented. The important changes are those that affect the institutions and the people of a nation.

If you are a person whose skills are used in an industry which has become a State monopoly, you are in a different position to a man working for a company in the free market. In a free market you sell your skills at the best price to the employer who offers you the best working conditions. But if your skills can only be sold to one employer, you have to behave quite differently. The power of a monopoly employer is just too great for you to handle alone. So you are forced to organise into a trade union to create a counter balancing power. Contrary to the conventional wisdom, dominant unions are the symptoms of a disease not the cause. They are the inevitable consequence of monopoly employers. Another fundamental change is the position of the family man. Traditionally and by nature he has been responsible for the health, education and welfare of his family as well as for providing for his own retirement. But if each of these responsibilities has been taken away from him and is appropriated by the State, then his role and authority within his own family are profoundly changed. There is no better way to reduce a person than by taking away his responsibilities.

Then let us consider the bureaucrat. Any normal human being must be affected when he is backed by the unlimited power of government but only has limited responsibility when he exercises that power. Such power must truly be intoxicating. Indeed the huge government bureaucracy with its special privileges has resulted in the creation of a new and privileged social caste in British society.

Then there is government itself. Its position has also fundamentally changed. In the beginning it was instinctively understood that the right way to define the State's intervention in the nation's affairs is that nothing should be done at national level which could be done at regional level; nothing should be done at regional level which could be done at local level and nothing should be done at local level which could be done at family level. But socialism takes the opposite view. So government is no longer faced with a national polyculture of activities. Instead it is faced with huge new centres of power: the trade unions; the monopolies; the bureaucracy; etc. What is more, as the government has taken over the management of the nation's key industries and services, it has become the ultimate employer which must fix wages and prices. To exercise all this authority the government must continually increase its powers.

But the government is also a political animal. Trade unions have political muscle. The government cannot impose these controls without appeasing the Unions. And so the Unions, by successive acts of parliament, were placed above the law. They were granted a sort of diplomatic immunity. For example, labour contracts are not legally enforceable. And the last Labour government passed legislation establishing the 'closed shop' as a national institution. This gave truly feudal powers to the unions over the workforce. Before being allowed employment, workers first had to be accepted by the trade union.

If one stands back and looks at Britain in the late 1970s after 30 years of socialism, one surveys a transformed society: an all-pervading and bloated government. A new and powerful social caste, the bureaucrats; new and dominant industrial barons, the trade union bosses; and a working people who have been lulled into believing that security is all important. The price that they have had to pay for this apparent security was never made clear. It has been extracted progressively and at a rhythm that was sufficiently slow for them not to feel much pain. In financial terms the average British worker in 1978 was being paid about half that paid to his counterpart in the other nine leading industrial countries. The British worker received \$4.20 per hour, including various fringe benefits, compared with \$8.20 per hour in the other nine countries. But the real price paid by the average citizen had been the loss of freedom. Freedom to choose an employer; freedom to negotiate the price at which he could sell his skills; freedom to work without paying obeisance to the trade union he was forced by law to join; freedom to pick the doctor and the hospital who would care [or his family]; freedom to pick the school that would teach his children.

What an irony that Socialism which set out to protect the small man against the abuses of the old system, today has become the champion of the power of the State over the liberty of the individual.

Then the British people decided to attempt a counter revolution. They elected Margaret Thatcher and her Party to form a government. Unfortunately the patient entrusted to her was deeply ill. Taking a nation off welfare and socialism is like taking a drug addict off heroin - it is painful and there are times when the patient will hate you.

Mrs Thatcher's task was complicated by the structure of the systems that she had inherited. The British system is Prime Ministerial not Presidential. So members of the government are normally drawn from among Members of Parliament. To maintain the unity of her Party, Mrs Thatcher felt it necessary to bring into the government representatives of the various trends in the Conservative Party. Among them were the spiritual descendants of the Pooles, Macmillans and Butlers of this world. People who seek the middle ground, the compromise, the expedient and the soft option. People whose principles are so soft that they are pragmatic in strategy as well as in tactics. They call it 'muddling through'. So, as soon as hard facts had to be faced Mrs Thatcher was bound to have problems within her cabinet.

Furthermore like all great centres of power in Europe the trade unions have been infiltrated by Marxists/Leninists and Communists. At last in Britain the Marxists are starting to come out of the closet. Mrs Thatcher was therefore sure to be in

conflict with the trade unions not only because she wanted to bring them under the rule of the law, like any other citizen, but also because some of the trade union leaders have clear and extreme political motivations.

Her bureaucracy was also her enemy. One of her prime ambitions is to liberate Britain from the dead hand of the bureaucracy. So it was clear that when the new Prime Minister tried to cut government expenditure, a massive propaganda campaign would be mounted against her. Some local government officials, when told to reduce their expenditure, did not cut out waste nor did they reduce sterile administrative super structures. Instead they picked high profile services such as those within hospitals and then relied on the howls of anguish from the liberal media to mobilise resistance against the government's plans. Despite these problems Mrs Thatcher might well succeed.

She is a woman of iron determination and enormous courage. If she does succeed then it might all have been worthwhile. Britain will have rid itself of its old, ossified class structure and would emerge as a free meritocracy.

Modern British history contains lessons which are useful to us all. Socialism is contagious. Britain is not unique. Countries as different as Jamaica and China, India and Tanzania, Poland and Burma have all followed the same route and with the same results.

Socialism, even well intentioned socialism, is a terrible disease. It offers equality, security and compassion. But, despite its good intentions, it delivers the opposite. It inevitably leads to loss of fundamental freedom. It inevitably leads to poverty. It sucks a nation and its people dry of the most important qualities of all; independence, self-reliance and pride. And in due course a nation, so debilitated, becomes ripe for totalitarian takeover.

One of the apparent disadvantages of the free enterprise system is that, unlike socialism, many of its participants, who are known as capitalists, do not start out with do-good intentions. They went to invest their capital and labour and keep for themselves and their families the wealth that it produces. Perhaps capitalists do not talk so much about their kind hearts as do the socialists. Socialists have always posed as having a monopoly on virtue, compassion and concern for human rights. As we all know socialists love monopolies. But just look at the results of free enterprise, and it is the results that really count. A truly free market creates prosperity, diversity and freedom for the nation. And, by the way, much as the social democrats would like it, you cannot have capitalism without capitalists.

A few weeks ago, the Wall Street Journal wrote in an editorial, that it is an irony and a tragedy that America should have allowed itself in recent years to be put on the defensive. America seemed to be shying away from the ideas on which its own success was built. Communism, said the Wall Street Journal, has been forcing much of the Third World to choose between bread and liberty. That liberty and bread can be grown together is precisely what America has been all about.

Your friends throughout the world, have stood by with anguish as socialist ideas appeared to tempt so many Americans.

What was frightening was that this could happen in America which from the start instinctively had understood that freedom is an integral part of capitalism. In its bones it seemed to know that economic freedom, decentralisation and the flourishing of a multitude of prosperous businesses of all sizes create independent traders, craftsmen, merchants and farmers. And that these are citizens, not serfs. They cannot be easily dominated. What is more, your instinct for encouraging competition and avoiding monopolies comes from the knowledge that free competition is not just the best way of fighting inflation. It also ensures natural selection in industry and in commerce. Competition forces shareholders, management, trade unions, the workforce and everyone else connected with any enterprise

to behave with common sense or to perish. Yet despite all this it became clear that America had also caught the disease.

Fortunately Governor Reagan was elected President. Everywhere a new hope was born.

Now, a few months later, the debate is centred on economic policy and on foreign policy. The economists and other experts argue about the particularities of the new economic package. And that is quite right. But no one should believe that economics is a science which has a life of its own and which can be studied outside the general context. It is a great mistake to believe that everything economic is just a question of measurement. As Oscar Wilde once said there are some who know the price of everything and the value of nothing. The economic success of De Gaulle in 1958, when he assumed the leadership of a disturbed and tortured France, was not the result of the particularities of his economic programme, even though they were important. It was because he achieved the greatest thing that can be achieved for a nation - he gave it back its pride.

President Reagan can do that for the Western World.

In world affairs the position is the same. The Liberal intellectuals are unable to distinguish between tolerance from strength and tolerance from weakness. It is right that a father should be tolerant but strong with his children. It is wrong for a father to be tolerant and weak with murderous thugs who break into his backyard by stealth and with evil intent. America's own backyard, in Central America and the Caribbean, is being entered and those in America and abroad who preach tolerance with weakness are not your friends.

America's foreign policy has been based on a fundamental misconception. The same misconception that led Carthage into misunderstanding and then succumbing to Rome. Carthage was a mercantile society which tried to interpret events in terms of trade, logic and mutual interest. Rome was an imperial power. Its purpose was to expand its empire by conquest. So Carthage could never understand the logic of Rome's actions. America, today, tries to interpret the actions and strategy of Moscow through American eyes and according to American logic. But this is a tragic blunder. Moscow is imperial. Its whole system is geared to imperial conquest. The idea that we can develop a long term and harmonious relationship with Russia by trade and by commerce has been revealed as being totally naive. East/West trade has been used by Russia to finance its imperial might. What is more, our banking system is now a Russian hostage because if the Eastern countries default it is our banks that are in trouble. So Lenin could have been right when he said that we, the capitalists, would sell to the socialists the rope with which they would hang us.

It is against this background that America's recent tolerance with weakness must be assessed. The rest of the world knows that America has no imperial ambitions. Only socialist propoganda talks about yankee imperialism. But on the other hand the world knows that Moscow is truly imperial and totalitarian. Put yourself in the position of some smaller country which has no hope of defending itself. If you had to choose an ally which would you choose? Imperial Russia or an America which used to tremble and collapse at the first rustle of a critical report from some phony international organisation for human rights? That is what finlandisation is all about and that is why finlandisation has been spreading to countries which are your natural allies.

America can no longer afford to be weak. You are the leaders of the Western World, of the free world, and leaders have responsibilities as well as privileges.

The danger that we all fear is 'the system'. For America's great counter revolution to succeed, President Reagan must tame the system. But the system is resilient. It has an inbuilt conflict of interest with the new administration. Bureaucracies do not like to be dismantled. Socialism, even in the early stages of the disease, is painful to reverse. And those who have hijacked the exclusive right to speak in the name of compassion have a powerful platform, even if their message is wrong, tragically wrong. Faced with these great obstacles, the temptation is to return to 'business as usual', to adjust to the problems, to accommodate the trend. That would be a tragedy for America and for the world.

I pray that your great counter revolution will be strong and will flourish. Let it be a shining, compelling example to the world.