

PREM19

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ECONOMIC POLICY  
(proposed Council of  
Economic Advisers)

276

Confidential Filing

Council of Economic Affairs advisers

The National Forum

ECONOMIC POLICY

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.6.79							
<del>22.6.79</del>							
<del>25.6.79</del>							
<del>3.7.79</del>							
<del>12.7.79</del>							
<del>16.7.79</del>							
<del>17.7.79</del>							
<del>24.7.79</del>							
5.9.79							
10-9-79							

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PRIME MINISTER

*Econ. Pd.*  
Top copy Read on  
Econ. Pd (July 1979)  
'Public Attitudes to Pay  
Determination'

Public Attitudes to Pay Determination -  
and of the 'National Forum'  
(E(79) 37 and 32)

BACKGROUND

These two papers both follow the discussion of Pay Policy at E on 9th July, and it would probably be convenient to take them together. Both form part of the educational process, designed to talk down expectations without creating a new pay norm. You saw and approved the main lines of the 'quick campaign' earlier in the summer. You have since agreed (7th September) to the Chancellor's modified proposals on the National Forum, embodied in his paper.

2. The Paymaster General will not be at the meeting, but it has been agreed that the Chancellor of the Exchequer will introduce his paper for him.

HANDLING

3. The 'campaign' paper is mainly for noting: no decisions are needed or sought in the paper. You might give the Chancellor a chance to introduce the paper briefly, and then seek comments, notably from the Secretary of State for Employment. (You will remember the problems which arose with him over the Chancellor's speech on the 1st September). The main point to bring out is, perhaps, the need for early decisions by Government on some leading public-sector pay cases, so that the talking is backed up by action. It is a pity, therefore, that discussion of the 'Pay and Cash Limits' papers had to be postponed to next week. But the awkward decisions on 'paying for Clegg' which arise under Item 1, however difficult in other ways, will at least show that the Government means business. Two other questions may arise:-

- (i) Is any special action needed following the TUC and ahead of the Party Conference, or is the basic line of the 'quick' campaign still correct?
- (ii) Should the Committee take another look at the 'long' campaign proposals, perhaps at the end of October?

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4. You might then turn to the 'Forum' paper, which the Chancellor cleared with you in advance. The options are set out in paragraph 7 and the Chancellor's recommendations in paragraph 8 - namely that an expanded meeting of the NEDC should be held, in private and in December, to discuss "economic prospects". The idea of a new and separate forum would be put on ice. The Chancellor also refers in his paper (paragraphs 11 and 12) to the possible role of the new Select Committee on the Treasury but concludes that decisions here must wait till the Select Committee has been established and had a little time to run itself in. There is no reason to dissent from the Chancellor's conclusions and, after inviting him to introduce it and giving other Ministers - especially perhaps the Secretaries of State for Employment and for Industry - a chance to comment, you might steer the Committee to accept the Chancellor's recommendations.

CONCLUSIONS

5. The conclusions under this item might be:-
- (i) to endorse the 'quick' campaign, and to ask all Ministers to continue to use the briefing material already circulated as fully as possible;
  - (ii) to invite the Paymaster General to make any changes to the brief needed as a result of the TUC, and to organise the handling of speeches at the Party Conference on the lines already suggested, in consultation with your Policy Unit;
  - (iii) to agree to resume discussion of the 'long' campaign at another meeting of the Committee at the end of October;
  - (iv) to approve the suggestions in the Chancellor's paper on the 'Forum' and to invite him to set the necessary work in hand.

JOHN HUNT

(John Hunt)

10th September 1979



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Prinhardt Ecom PD 1

Agree that the Chancellor  
should report to E  
Committee as proposed  
in para 11?

Yes no

PRIME MINISTER

Spoke to  
Travis

R  
7/9

NATIONAL ECONOMIC FORUM

R.

Play A

It was agreed at our meeting of E Committee on 17th July that the proposal for a separate National Forum should not be pursued at present. It was decided instead to examine the alternative of a special meeting of the NEDC, enlarged for the occasion and held in public, to discuss the economic prospects of the country. I undertook to take soundings of the CBI and TUC as to whether a proposal on these lines was worth pursuing as an experiment and report back to E Committee. Before I do this, I thought you would like a report of the CBI and TUC reactions and my own thoughts, in the light of these reactions, on how we might proceed.

2. At my request, Douglas Wass has talked separately with John Methven and Len Murray about the idea of developing an economic forum out of the NEDC. To each the idea was sketched out - albeit tentatively - in the following terms:

- i. it would be based upon NEDC;
- ii. its membership might be widened somewhat, e.g. by the inclusion of the Governor;
- iii. its meetings might be in public - i.e. the media could be invited and there might be a public gallery;
- iv. the purpose would not be to reach specific agreement, but to be educative and elucidatory - the target being the parties participating and the public at large;

/v. discussion

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- v. discussion might be based on a paper by the Government (and the other parties if they wished);
- vi. the first meeting might be held this autumn, possibly in October.

3. John Methven responded warmly to this concept. He recalled that the CBI had always favoured this sort of procedure as a means of getting realism into public attitudes towards the economy. On particular issues, he applauded (i), (iv), (v) and (vi) but had some reservations about (ii) mainly because he did not want to see a proliferation of employer interests, though he saw no difficulty about the Governor being invited. He was definitely opposed to (iii) and thought it essential that, at the outset at any rate, the meetings should be held in private. He also had definite views about the amount of time which should be devoted to such a meeting. He thought that if participants were to advance beyond the stage of stating stock positions the meeting should last at least a day, and possibly two days.

4. By contrast Len Murray was much less warm. He went so far as to say that an invitation to the General Council to participate in such an experiment now would almost certainly lead to a refusal, even if the refusal had to be made public. The reason he gave was that the Government seemed to be taking so little notice of TUC views that it would seem pointless to participate in a new venture. He was having difficulty enough in getting authority to keep the existing dialogue going and he would be criticised at the Conference for persevering.

5. On the details, he said that the TUC would be opposed to a public meeting; that the inclusion of the Governor should pose no problem; that any attempt to reach an agreement would be unlikely to succeed; and that October

/was much





was much too early (and too near the Conference season).

6. Douglas Wass asked Len Murray whether the TUC's opposition would extend to an ordinary or perhaps extended meeting of the NEDC devoted to the subject of "economic prospects", provided it was not billed as a forum, met in private and had substantially the same membership as the NEDC. Len Murray immediately said that this would create no problems. There would be no need to consult the General Council since this would be ongoing NEDC business.

7. I have concluded that I would be unlikely to elicit a more favourable response from Len Murray if I were to see him - he is clearly tied by the attitude of the General Council - and that there are broadly two options for us to consider:

i. to press ahead regardless with the idea of a new forum, based on the NEDC (perhaps with some extension in membership), and to issue invitations to the interested parties, leaving it to the TUC to risk the public opprobrium of refusing to join in; or

ii. to put the above idea on ice and to build instead on the idea of an ordinary NEDC meeting (possibly extended to a whole day) devoted to a discussion of "economic prospects".

8. My own view is that in practice the first option would not offer significant advantages over the second. Neither the CBI nor TUC want meetings to be held in public, and I believe we may be able to secure some adjustment of NEDC membership, e.g. the addition of the Governor, without a major initiative. I therefore recommend the second option

/as being



as being the course of action most likely to gain acceptance. A modest beginning, if it succeeds, would leave open the possibility of later developments towards a more distinctive economic forum.

10. So far as timing is concerned, we had hoped to hold the first meeting in October, partly in order to influence the tone of this pay round. However, Len Murray's reaction, and the need to prepare very carefully for the meeting if it is not to be counter-productive, persuade me that it would be better to hold it once we have published our medium-term economic/financial plan (my minute of 9th August refers). This would provide material on the economic prospect and help to ensure a realistic discussion of economic policy, pay etc. These considerations point to a meeting probably in December - there is a regular NEDC meeting scheduled for 5th December.

11. Subject to your views, I propose to circulate a progress report to E Committee for the meeting on 11th September which would recommend in favour of building on normal NEDC meetings at this stage.

12. I am sending a copy of this minute to Keith Joseph, Jim Prior and Sir John Hunt.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

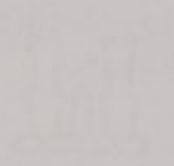
5 September, 1979



5 SEP 1979



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10 DOWNING STREET

THE PRIME MINISTER

24 July 1979

cc. HMT  
DI  
DM  
Original in file  
ECON POL

Dear Tom,

Thank you for your letter of 27 June about the willingness of your Association to participate in a national forum for debating major economic and industrial issues.

We have not yet finally decided on how we might pursue the idea of such a forum. But I can assure you that we will take into account your claim to be represented in any wider economic debate.

More generally, I can assure you that the Government will be anxious at all times to receive views which are as widely representative as possible. We shall give weight to the views of organisations such as your own, which is both widely based and, as you say, covers every sector of UK industry and commerce and firms of every size. I know that your Association has in the past made constructive representations to the Government on a wide range of economic issues. I and my colleagues will always be ready to study carefully any such representations in future.

Yours sincerely,

Robert Thatcher

Tom Boardman, Esq.

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PRIME MINISTER

National Forum  
(E(79) 18)

BACKGROUND

You are familiar with the general background to this proposal. The Manifesto said:-

"There should also be more open and informed discussion of the Government's economic objectives (as happens for example in Germany and other countries) so that there is wider understanding of the consequences of unrealistic bargaining and industrial action".

2. The main purpose of a National Forum would presumably be to influence the expectations of the broader public and not just for the participants to influence each other.

3. The Chancellor's paper leaves a lot of loose ends for further consideration. He proposes an informal body, which you would chair, and that it should be based on the NEDC, with such additional membership (possibly fluctuating from meeting to meeting), as seemed sensible at the time. Tying it loosely to the NEDC might make it easier for the TUC to accept - since they already participate on NEDC. But it should also look sufficiently different to be seen as a new departure. The paper suggests a wider membership than the NEDC - but it would be very difficult to draw the line once other representative groups were granted a place. The German experience - quoted in the Manifesto - is not encouraging, since their equivalent body got too unwieldy and is now apparently in abeyance.

4. The paper suggests that arrangements for publicity should be for the forum to decide. In detail that may be right - but if the main aim is education, this aspect surely needs clarifying in broad terms before the proposal gets very far. There are obvious advantages for the process of educating the members of the forum if meetings are private and allow frank discussion. But for wider education - and to allow a debate in which the various economic

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commentators can feel they participate - some public exchange seems necessary. Perhaps one could have a private meeting, followed by an extended Press-briefing at which all Forum members could say their piece without any attempt at an agreed statement. That seems to have been the end result of the German model.

### HANDLING

5. You might say that the main purpose of the proposal is to form one element in a process of public education. You might lead the discussion to clarify the following main points.

Is it worth attempting at all? —

If so:-

← How should its constitution and method of working be defined?

If it is based on NEDC, how will other members be selected?

Will they be asked as individuals or representatives?

Can they include academics or journalists?

↪ Who will write papers or lead discussions?

Presumably Government will start. But unless others pick it up fairly quickly will it not seem just a piece of Government propaganda?

How does one get its message to the wider public?

If public meetings are not adopted, will Press briefings be an adequate substitute? NEDC is not notably newsworthy.

How often should it meet?

Infrequent meetings would avoid displaying too clearly to public gaze the disagreements that will inevitably exist. But this would also reduce the chance of a consensus view emerging from debate in the Forum.

### CONCLUSION

6. Subject to discussion you might conclude:-

- (i) that a forum would be only one element in a public education programme and that momentum should be maintained on other aspects e.g. Ministerial speeches, while the forum is being examined;

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- (ii) that a forum is worth trying;  
and if so
- (iii) that the Chancellor of the Exchequer might take informal soundings of the TUC General Secretary and CBI Director General as to how it might best be organised to achieve its public educational purpose;
- (iv) subject to these consultations he should bring firmer proposals to colleagues, with the aim of having a first meeting as early as possible in the autumn.

*Jgh.*

(John Hunt)

16th July, 1979

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ES  
Econ  
Policy

10 DOWNING STREET

From the Private Secretary

12 July 1979

The Chancellor of the Exchequer discussed with the Prime Minister this morning the draft papers which he had sent earlier on the National Forum and the proposal for an Economic Advisers' Council.

The Prime Minister agreed that the Chancellor should circulate a paper on the Forum to E Committee. However, she asked that the present draft be polished up to clarify certain issues;

- (i) Whether or not meetings of the Forum should be public. The Prime Minister said that in her view it would only be of educational value if meetings were public; the Chancellor said that he was less sure - a meeting in private might result in a better discussion.
- (ii) Membership of the Forum. The Prime Minister said that it must go wider than the present membership of NEDC - in particular, small firms must be represented, as must non-TUC affiliated trade unions and also consumer interests perhaps ought to have greater representation than at present.
- (iii) The timetable for the first meeting of the Forum, and the frequency of subsequent meetings. The Chancellor and the Prime Minister agreed that there would in principle be advantage in having a first meeting before the winter pay round got under way - for example in the latter part of October; on the other hand, this would mean a very tight timetable for agreeing membership etc.
- (iv) What will be the procedure, and who will be responsible for presenting papers to the Forum.

Commenting on paragraph 3 of the present draft, the Prime Minister said that she did not think that the Forum should be aiming to achieve "broad agreement on the main objectives and limitations of future economic policy". Its functions should be "general dissemination".

/Turning

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- 2 -

Turning to the draft paper on the Economic Advisers' Council, the Prime Minister said that she now felt that setting up a Council was not a top priority. It would be better to concentrate on establishing the Forum. Unlike the Forum, which would probably be based around the NEDC, the idea of a Council would mean establishing a new Quango; and this would be inconsistent with the Government's present efforts to get rid of Quangos. Also, the Government should not be side-tracked for the time being from its efforts to improve the quality of economic advice within Whitehall. The Prime Minister therefore suggested that it would be better for the Chancellor not to circulate his paper on the Council. The Chancellor agreed.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

T. P. LANKESTER

Tony Battishill, Esq.,  
HM Treasury.

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*ce/Comptol (Dis. Pub. & Econ. Asses.)*

PRIME MINISTER

MEETING WITH THE CHANCELLOR - THURSDAY, 12 JULY AT 0855

The Chancellor is coming to discuss his draft papers on the National Forum and the Economic Advisers' Council. These are attached. If you can reach agreement with the Chancellor on them, they could be put on the agenda for E Committee for next Tuesday. That meeting will be continuing the discussion on pay, and these papers would fit well with them.

The Chancellor is likely to raise two other points with you:

- (i) Handling of the EMS review. Sir John Hunt's advice on this is at Flag A.
- (ii) Your meeting with Sir David Steel next Monday. The Treasury have heard - not from us - that you are meeting Sir David along with Mr. Howell. The Chancellor would like a Treasury Minister to be present. This seems not unreasonable since the Treasury is responsible for BP: the Government's shares are vested in the Treasury Solicitor, and the Government directors are appointed by the Chancellor. The Chancellor himself will be in Brussels on Monday; presumably it would be for the Financial Secretary, who of course has been taking the lead on assets disposals, to attend. (For Monday's meeting, I am getting a brief from the Department of Energy, which will include a report from Mr. Howell on the meeting which he has already had with Sir David in accordance with the guidance given by E(DL) last week.)

11 July 1979

*Th.*  
The Chancellor has also sent a note (Flag B) on the international currency situation - which he may refer to.

## DRAFT PAPER BY THE CHANCELLOR OF THE EXCHEQUER

## NATIONAL FORUM

1. At E(79)2nd Meeting on 1 June we agreed that a major educational effort was required to ensure that economic realities were understood by both the wider public and by those involved in pay bargaining, and I was asked to circulate a paper setting out the possibilities for a "forum" in which ~~pay~~ matters could be discussed with interested parties in a wider context. This paper accordingly considers the form that such a forum, whose discussions need not be confined to pay matters, might take.

Objectives

2. A prior question must be what such a forum is to be expected to achieve. Only when this has been decided can we sensibly consider the question of its composition, organisation, work methods, and so on.

3. There is a range of possibilities. These might include:

- broad analysis of what is happening, or might happen to the economy;
- general dissemination, both among those with greatest influence and more widely, of understanding of how the economy operates and, thus, what kinds of mutual adjustment could lead to better all-round results;
- the achievement of broad agreement on the main objectives and limitations of future economic policy and the kind of approach necessary to secure them.

4. I do not think we should at the outset look to a forum to achieve a consensus on broad economic policy. If this in due course emerged, and if it included <sup>some</sup> a measure of agreement on ~~pay~~, it could represent a significant step forward and help to establish a more harmonious and realistic climate in which responsible pay bargaining could take place. But this would emerge by a process of evolution, and should not be set as an objective from the start, particularly if there were any risk of it being interpreted to refer to reaching agreement on

specific pay targets.

5. Rather, I think that at any rate at the start the main role of the forum should be seen as, in the broadest sense, educational - both for the participants and for the public at large. As far as pay is concerned, for the unions, we might be thinking in terms of bringing home the trade-off between the short and longer-term effects of pay bargaining; for employers the aim might be to underline the practical consequences of the stance they adopt. But in either case the basis would be consideration and analysis, with the aid of the best possible input, of the broad economic "facts of life".

The German experience

6. It is worth considering briefly the German experience with their system of "Concerted Action". Its original intention in the 1960s, was to eliminate (or at least minimise) misunderstandings between unions, employers and Government on macro-economic matters. The idea was that making the effects of wage decisions on prices more apparent would lead unions and employers to conform with the basic liberal market economy and not exploit power positions leading to inflation and dislocation.

7. The chief architect of the system, Professor Schiller, when Minister of Economic Affairs, ran the system in a strict way, insisting on joint communiques following meetings. Initially this was welcomed by all concerned, but after a few years disharmony started to creep in. Schisms developed between the leaders involved in Concerted Action and their local members. This eventually led to the leaders taking up more unreasonable positions, with less hope of compromise. Joint communiques ceased: press conferences were held instead. At the same time attendance at the Concerted Action meetings grew, rising to a peak of 80. The unions also became irritated that every meeting seemed to turn into an attack on them, with the other participants forming a common front. It was therefore not surprising that when a suitable pretext arose - a legal dispute with the employers over the scope of the Co-determination Law - the unions withdrew from the system in 1977. Since then bi-lateral discussions have continued "round the coffee table". It seems likely that these will become multilateral, but restricted to a narrow group of participants. The intention would be to preserve maximum informality and avoid preaching.

Character of the Forum in the United Kingdom

8. A lesson to be learned from the German experience seems to be the need for informality. This would be entirely suitable in our circumstances, making the forum more of a "happening" than an institution in any formal sense. There would thus be a minimum of rules and procedures and maximum flexibility to allow the members of the forum themselves to determine how most effectively and productively to proceed. Although in order to secure maximum frankness in discussion, the forum's proceedings should not be public, it would obviously be desirable for it to find effective ways of projecting itself to the public at large. The exact means of doing this should be for the forum itself to settle: there are obvious dangers in seeking any sort of agreed communiqué. In any case I think it would be wrong to impose at the outset any requirements that could impede a relaxed exchange of views and information.

Composition and Organisation

9. Two broad possibilities could be considered:-

(i) a large group representing a very wide range of interests; if consensus were achieved, this would be powerful; but the size of the Group would make consensus difficult, confidentiality impossible, and hence posturing likely; I therefore would not choose it for our first experiment;

(ii) a smaller Group, more akin, in terms of composition, to the existing National Economic Development Council (NEDC), which is small enough to enable genuine discussion to take place.

10. My own preference is for a group based on the NEDC. A summary note on the NEDC's present organisation is attached at Annex. This shows that its terms of reference are apposite; it already covers most of the key potential participants and is not so large as to be unwieldy. Its agenda and methods of work are flexible and so could easily be adapted. No new bureaucracy would be required, whereas if the NEDC were not used it would be difficult to avoid setting up another new body. Further, since the TUC are already members, the decision on whether to participate in new arrangements that were based on the NEDC should not be so difficult for them.

(Annex  
to  
follow  
later)

NA

to request further inputs if they wished - either from the Council or the Government or other sources - and members of the forum would, of course, be free to make their own contributions.

14. On this basis the forum might meet at a minimum on two occasions a year - say in the early summer (ie prior to the beginning of the next pay round) and around the turn of the year (ie prior to the Budget). Discussion at those meetings would be focussed on the report from the Council of Economic Advisers and would thus range over progress in the past year and consideration of the prospects, choices and range of choices for the coming year. It would be up to participants to consider whether other meetings were desirable. An occasion for these might, for example, be any other major reports produced by the Council of Economic Advisers. Or the Chairman might wish to summon the forum to discuss a particular issue of major economic significance (eg the implications for the economy, of the world energy situation). There is unlikely to be a shortage of topics; but too frequently meetings could devalue the effectiveness of the forum.

15. I do not therefore see the forum, at least initially, conducting formal business, or having any technical or insitutional existence on its own. Consequently any papers which emerged would be the responsibility of the organisations/individuals who had prepared them (eg the Chairman of the Council of Economic Advisers), with perhaps endorsement in very general terms. In so far as any action was called for by the forum, this follow-up would normally take place through other, established, machinery.

#### Relations with Parliament

16. This approach would help to simplify relations with Parliament. ~~It is not clear that~~ any formal relations with Parliament should be established. ~~But~~ it would, ~~of course~~, be open to Parliament to debate at any time the activities of the Government, including its participation in the forum, and any associated reports or statements emanating from the forum. Similarly, it would be possible for a Select Committee to invite members of the forum to appear before them. But this possibility of calling on leading economic personalities (including perhaps the Chairman of the Council of Economic Advisers) would exist regardless of whether such people met from time to time in the context of the forum.

I am not  
entirely  
sure  
how far  
it would  
be possible  
what

in my view

Conclusions

17. The above proposals are in outline only and would need more detailed examination if their general thrust were accepted. However, I believe that a forum on these lines could make a contribution to general understanding of the economic problems and choices that face us although it would be wrong to expect too much from it. If the Committee share my views, I suggest that we should ask officials to examine the possibilities in greater detail and bring forward for our consideration a more specific set of proposals. At the same time I think that before we go too far it would also be useful if informal soundings were taken of the TUC and CBI at General Secretary and Director General level.

The form shape of any similar institution  
 or committee would depend, as a significant  
 factor, on what was likely to be most  
 acceptable in practice.

## NATIONAL ECONOMIC DEVELOPMENT COUNCIL

The NEDC is a flexible institution as regards the work it does, its membership, and its procedures.

2. The Council was set up by Ministerial decision in 1962, with broad terms of reference to examine the economic performance of the nation (with particular concern for the plans for the future in both private and public sectors of industry); to consider what are the obstacles to greater growth; and to seek ways of improving economic performance, competitive power, and efficiency.

3. Because the Council is not a statutory body, and has no formal constitution, there is flexibility about the total size and composition of its membership; decisions rest with the Chancellor (who, as Chairman, appoints all members of the Council) and the Prime Minister, but the CBI and TUC have been consulted in the past about representation, and it has been customary to accept their nominations for their own respective places on the Council. The aim has been to maintain equal representation from Government, TUC and CBI; currently there are six representatives each from the two sides of industry. There are also at present two independent members (Lord Roll and the Chairman of the Consumer Council), two Chairmen of Nationalised Industries, and the Chairmen of the NEB and the MSC. The Director-General of the National Economic Development Office (which was established at the same time as the Council) is also a member.

4. The Council is deliberative rather than decision making; there is no voting or promulgation of communiques, though it is usual for the Chairman and/or the Director-General to hold a press conference after each (monthly) meeting to give an account, by agreement with the Council, of the discussion which has taken place. Though the Chancellor of the Exchequer is normally chairman of the Council, successive Prime Ministers have also taken the chair from time to time either at a regular meeting or at a special meeting for a particular purpose (eg to consider major economic events in December 1973).



5. Though the Council is the principal forum for tripartite discussion of medium term economic policy issues between Government, management and trade unions, there has also been a tendency for many major issues of economic policy - eg pay - to be pursued outside the Council in bilateral discussions between the Government and the TUC or CBI respectively. Over the last 3 or 4 years, discussions in the Council have been mainly concerned with problems on the supply side of the economy and with issues arising directly or indirectly from the work of the Economic Development Committees and the Sector Working Parties; however, this has in turn involved discussion in the Council of a wider range of issues, extending beyond economic and industrial policy to the relevant areas of social policy and so on.



### AN ECONOMIC ADVISERS' COUNCIL (EAC)

The purpose of this paper is principally to set out the most important practical questions about how an Economic Advisers' Council (EAC) might operate and be organised. Wider issues such as how it might relate to other bodies such as NEDC or Parliament are only touched on in passing.

2. An EAC would be intended to serve several objectives:
  - ✓ a. to provide an authoritative and independent opinion on issues of economic policy both to the Government, to Parliament and to the public generally;
  - ✓ b. to promote a wider and deeper understanding of some of the most important topical economic issues of the day; and
  - c. in particular, perhaps, to help in creating wider understanding and acceptance of the need to overcome ✓ inflation, and of the policies that requires.

It could be introduced on its own, or as part of wider moves to set in motion the process of economic education and information associated with the "Forum" idea. The issues explored below are consistent with either alternative.

### TERMS OF REFERENCE AND AGENDA

3. It would be natural to expect the EAC to undertake two kinds of work, and for them to be reflected in its terms of reference: first, regular reports on the central issues of economic policy; and second, a number of ad hoc reports on important issues of the day.



i. The regular reports could be once or twice yearly, but probably not more frequent. Their form and timing would depend on a variety of matters, many of which can only be resolved at a later stage. Relevant factors include whether or not there is a Forum, the timing of the Budget, the timetables for setting monetary targets, and the annual pattern of the wage round.

ii. Subject to these reservations and assuming two regular reports a year, it would be natural to produce one shortly after the New Year in time to catch the Budget making season, and one in the late Summer as a background to the resumption of pay-bargaining in the Autumn.

iii. The ground to be covered in a regular report would include an appraisal of the economic prospect and the various forecasts and judgement made about it by others. The real purpose would be to focus implicitly or explicitly on policy issues. The reports might spell out the constraints imposed by economic reality, the implications of Government policy or of important policy proposals of general interest and, perhaps, shed light on more particular economic problems.

iv. Special studies could be initiated in a variety of ways. They could be commissioned or requested by Ministers, Parliament or the participants in the Forum, or started by the EAC itself without outside pressure; or both could be permitted. Examples of issues which might, in the past, have benefited from such treatment include: the adjustment to the 1973/74 oil crisis; use of North Sea Oil; the collapse of profits; public and private sector pay; the "case for shorter working hours" and so on.



v. All these reports would ideally be written with more than usual emphasis on presentation. The reticence of some official prose and the somewhat academic style used by most economists, by the German Wise Men or the American CEA must be avoided as far as possible.

vi. Past experience suggests that the EAC will be most likely to establish itself firmly if it has a well defined destination to which it must report. This point is made more fully in a brief note by Treasury officials which is annexed to this paper.

4. To fulfil the education task properly, the EAC Members - and particularly its chairman - would have to present their views to the outside world from time to time both in public and in private: on television and radio; before select committees; at occasional conferences and seminars; and probably play a central role in the Forum. This would have to be clearly understood from the start and should either be a feature of the terms of reference, or of any letter of guidance given by Ministers at the outset.

#### LOCATION AND STATUS

5. Where the EAC is based has a considerable bearing on its status, how its work would be regarded by the outside world and how its members are appointed. Given a particular location, its relationship with its parent body could be close, involving for example shared staff; or it could be distant, involving little more than "pay and rations" in common. In weighing up these alternatives, it has to be borne in mind that there are many cheaper and simpler ways of increasing the range of economic advice available internally to Ministers than creating an EAC. However, much of the purpose of an EAC is to have a public impact. To do that requires a genuinely independent body, which is seen to be and believed to be "free standing", and not merely a stalking horse of the authorities.



6.

i. It could be based in some way in the Treasury. To some extent this might help access to data and the Treasury's own model.

ii. Another range of alternatives would be attachment to No 10, the CPRS, or the Cabinet Office. This kind of location has a number of precedents. It would crudely parallel the American CEA, which reports direct to the President.

*No*  
iii. It could be created as an adjunct to a Parliamentary body, for example an Economic or Treasury Select Committee if one were ever created. However, such a formal link might make it more awkward to get the right members and staff, at least until Select Committees have become more stable and consistent bodies. Furthermore, it is in no way necessary if one wants an EAC with a Parliamentary link, which could be assured almost regardless of location. Were there to be direction or control by a Select Committee the EAC could well become seriously constrained in unpredictable ways.

*No*  
iv. It could be related - loosely or closely - to the NEDC and NEDO. There would be a certain logic in this if an enlarged NED Council were to be the nucleus for the "Forum", since the EAC would presumably provide important input into the Council, but the same kinds of argument would point the other way if the Forum were to be located elsewhere. The EAC's activities would not fit in very naturally with the normal work of the NEDO organisation, and there might be awkward questions about separating its role and management from that of NEDO. Furthermore, its part in the activities of the Forum could be supported almost equally well from the other locations, regardless of where the Forum is based.



v. Finally it could be formally quite "independent" like a Standing Royal Commission or Quango. This could have some disadvantages. But it is the only arrangement which seems to be fully consistent with the EAC's basic objectives. All the other alternatives discussed above are difficult to reconcile fully with the appearance or reality of independence, though not always seriously so.

#### POLITICS AND DOCTRINES

7. The political and doctrinal balance to be sought in setting up an EAC are important issues. While it would be unrealistic to expect that the EAC should be totally apolitical, it would, equally, be ineffective if it were seen as in essence a politically partisan organisation. How to find the "juste milieu" is something to be worked out in practice rather than defined in principle. But it would clearly be reasonable to envisage an EAC one or two of whose members were known to be sympathetic to the Government\*.

8. A somewhat similar issue arises over what breadth of economic philosophy and doctrine the membership should embrace. Were it only to include one narrow school of thought, whether monetarist, Keynesian or any other, the EAC's authority and credibility would not be very great. At the other extreme, a membership embracing both a near Marxist member of the "New Cambridge" Group and a pure Friedmanite would make it unlikely that the EAC could agree about anything of interest.

9. The means by which the key members of the EAC are selected has a bearing on both issues. If nomination is in the hands of Ministers, then a coherent body can be constituted, though at the

---

\* The "five wise men" in the German Advisers Council (known as the Sachverständigenrat) are all independents politically, while the more senior members of the American CEA are normally well-known Democrats or Republicans. This difference in composition reflects a difference in roles. The CEA is geared above all to advising the President, hence the unavoidably political nature of its membership. The German Council is intended to educate the public, for which purpose the less political colouring the better.



risk of their being swept away and replaced "en masse" whenever the Government changes. Were there to be seats effectively in the gift of the CBI and TUC or a Select Committee, then striking a proper political or doctrinal balance would be much more a matter of chance. And the effects of elections might not be that different.

#### MEMBERSHIP

10.

i. In practice the EAC would inevitably have as its kernel a small number of key figures. It would have to have some staff backing, though not necessarily much or entirely full time.

ii. There would be room for choice in drawing the dividing line between "members" and "staff". The Germans have five "members" and a small anonymous supporting staff, which is based on the Bundesamt für Statistik, for whose role there is no exact British analogue. The American CEA consists of more than a dozen economists, of whom the chairman and his two deputies are public figures of some real weight.

iii. Assuming there are to be "members" and "staff", the obvious alternatives would be three or five members, including the chairman. More would be unwieldy. The question of staff numbers cannot be determined so simply. For it will depend on the term and reference, working methods and decisions on a number of other practical issues, some of which are discussed elsewhere.

iv. The Chairman would obviously have to be a person of some weight, and a good organiser of work; on top of recent economic developments, both in policy and analysis; and, importantly, a competent public performer.



v. The members could be full-time, a mixture, or entirely part-time with, perhaps, only the head putting in more than two or three days a week on average throughout the year. On any plausible assumptions, the pattern of work is likely to be fairly seasonal. This could matter a lot, particularly if university posts are at stake, or members (and staff) have outside occupations, whether teaching, research or consultancy, which they cannot or would not wish to abandon.

vi. The members should not be solely professional economists or academics, though they should, perhaps, be regarded as economists in the widest sense of the word. One might also aim to include some of the following occupations: financial journalist; City person; ex-economist politician; management consultant; or economically literate businessman.

#### STAFF AND METHOD OF WORK

11.

i. The supporting staff would best be drawn partly from University or private sector circles, partly from Government statisticians and economists on secondment. Probably only three or four full time graduates would be needed. It would, in any case, be desirable to define firmly in advance the limits of staff and funding within which the organisation was to operate.

ii. The EAC must be expected to draw on work and ideas from a variety of outside sources, whether institutions or individuals, and whether in the UK or elsewhere.





This might not be very expensive particularly if such studies were as a rule published, as would in any case be desirable for some routine work. Access to the forecasting models of the Treasury and London Business School - and, no doubt, of other bodies if need be - could doubtless be arranged without difficulty. The EAC should, as a rule, be able to obtain basic statistics and material from the official machine at negligible cost whether in terms of money or the workload of officials.

iii. A decision would have to be made about whether the EAC was to hold hearings or publish evidence, particularly if it is to be set up on lines not unlike those of a Royal Commission. There seems to be little point, and some danger, in requiring it to do so. But equally there would be no reason for ruling out either course of action in the terms of reference or guidance.

#### STARTING UP

12. There are a number of unrelated but important points worth stressing:

i. to secure members or staff in time to begin work by this Autumn and, therefore, to be in time to publish next Spring would, if it is possible at all, require fairly swift action;

ii. some of the details of the EAC's shape and modus operandi may in practice have to be a matter for negotiation with the chairman designate. So, a fortiori, may the staff.



iii. Decisions about an EAC would have implications for the way in which the Treasury undertakes and publishes its own forecasts, for the evolution of Parliamentary Committees, and for moves towards the Forum idea.

iv. This note deliberately does not go into questions of personalities. But a little thought makes it quite clear that there is not a very wide range of suitable candidates from which to choose members or a chairman.

#### CONCLUSIONS AND RECOMMENDATIONS

13. To sum up the key recommendations of this paper, if an EAC is set up it should:

- be independent
- have 3 or 5 members and a small supporting staff
- prepare one or two regular reports a year, and do some ad hoc studies either at the request of others or on its own initiative; and
- the final details should not be fixed without consulting the chairman designate, or ensuring consistency with other related plans.

ADAM RIDLEY  
15 June 1979

ECONOMIC ADVISERS' COUNCIL - PAST EXPERIENCENote by Treasury Officials

1. There have been other attempts by Conservative administrations to set up advisory bodies which would encourage an understanding of the economic problems facing the country. But they have foundered or proved short-lived usually because of opposition from the trade unions.
  
2. The closest parallel to what we now have in mind was the Council on Prices, Productivity and Incomes (COPPI) set up in 1958 - "to keep under review changes in prices and productivity and the level of incomes" while "having regard to the desirability of full employment and increasing standards of life based on expanding production and reasonable stability of prices". Its first two reports, strongly influenced by Sir Dennis Robertson, aroused a storm of protest from the trade unions. Its third and fourth reports, reflecting the views of a labour market economist, Professor Henry Phelps Brown, were less unpalatable to the unions but had little impact generally. The Council was wound up in 1961 when it had become clear that it had no further useful life.
  
3. Two lessons can be drawn from this experience: first, that the membership of the council needs to embrace the main stream of economic thinking while avoiding the extremes at either end of the spectrum if it is to avoid the charge of being partisan; second, to make a widespread public impact the reports need to be presented and discussed in a wider economic forum, which includes both employer and employee representation.

PRIME MINISTER

1.  
Economic Policy

Economic Advisers' Council and the National Forum

You will recall that we had hoped that you and the Chancellor of the Exchequer would be able to discuss his draft paper for E on a Council of Economic Advisers while you were in Tokyo (the paper is attached). In the event, although I found a suitable moment, the Chancellor said that he preferred to discuss the paper with you when you were both back in this country. In the meantime the Treasury have let me have the attached copy of the Chancellor's draft paper on the National Forum. This has been seen by the Chancellor - the manuscript amendments to it are his own - but he has not finally approved it since he would like to discuss it with you at the same time as the paper on the Economic Advisers' Council.

---

If the Chancellor is to circulate both these papers in time for the meeting of E at 4.00 p.m. on Monday 9 July, he needs to discuss them with you in the course of tomorrow. Would you be ready to have a word with him about them if he stayed behind after the 1530 meeting on mortgage rates?

It would seem  
to be to discuss  
at E on  
Monday 9 July.  
Could I discuss  
with the Chancellor,  
next week?  
T.H.S.

3 July 1979

CONFIDENTIAL

Qa 04164

To: SIR JOHN HUNT

From: SIR KENNETH BERRILL

Council of Economic Advisers

1. Thank you for letting me see Adam Ridley's paper. When I wrote my own note I was not aware that Ministers had discussed the concept of a Council of Economic Advisers in Opposition and agreed that what was wanted was something along the lines of the American model.
2. On this assumption I find little to quarrel with in Adam Ridley's paper. On the points you make, I agree completely that the Council should be set to work as quickly as possible on its six monthly regular reports and that the idea of reports on 'special subjects' should be left for consideration when they have been going for a while.
3. If they are to be got into action quickly then approaches will have to be made to individuals very soon. Academics can usually revamp their summer programmes (holidays, consultancies, etc.) but they need to be given some notice. (Mr Ridley suggests that the three to five members should not be all academics but I would expect that say three out of the five would be.)
4. I agree very much with Adam Ridley that the standing and personality of the Chairman is of the utmost importance. This is not only because he will inevitably have a major influence on the content and style of the reports. If these reports are to have the public impact that Ministers require he will have to go on television and appear before Select Committees in the same way as, say, John Methven has to do.
5. The only point on which I have doubts about your own comments is on the location of the Council. I agree that it would be wrong to base it on the Treasury or as an adjunct to a Parliamentary body. I am more attracted

Economic  
Bliley  
The Langford. 25/6  
You saw my minutes 22  
22 June below. You may  
like to see Sir K Berrill's  
comments also.  
Mr 1/25/6

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to NEDO than you seem to be. If the forum were in fact to be NEDO-based then I see considerable advantage in this from the point of view of convenience, support services, etc.

6. As for an independent quango, this is in one sense an obvious way out but it is bound to be rather expensive and would not stand too well with the Government's determination drastically to reduce the numbers of quangos.

KB

25 June 1979

Mr. Hankester  
Economic Policy

CONFIDENTIAL

R.

Ref. A09838

SIR KENNETH BERRILL

Council of Economic Advisers

I have obtained a copy of Mr. Battishill's letter of 15th June enclosing Adam Ridley's paper. The Prime Minister has not yet reacted to it and may not do so in advance of Tokyo and Australia. If so, I would like to take advantage of the trip to discuss the matter with her.

2. In general I find myself in agreement with Adam Ridley's paper, subject to the following points:-

- (a) Paragraph 3. The EAC should not try to bite off more than it can chew initially. I would put the emphasis on the regular reports rather than the special studies because of their importance in influencing "expectations".
- (b) Paragraph 5. I would rule out (i), (iii) and (iv). As between (ii) and (v), I favour (v).
- (c) Paragraph 12. I would like to see even greater urgency. It will take time to get the "forum" off the ground (assuming Ministers decide to have one) and the sooner the EAC starts work the better.

(John Hunt)

22nd June, 1979

PRIME MINISTER

Economic Advisers' Council

We now have Adam Ridley's paper on the proposed Economic Advisers' Council. This seems to me to cover the ground very well and to come to sensible conclusions (though he has, deliberately, not gone into the question of who the members of the EAC might be).

An EAC could, of course, be set up to provide the Government with a separate and independent source of private advice which Ministers could use as a counter-balance to the advice provided by the official machine. But you do not need to set up a formal council for that purpose: such advice can be obtained more informally. If, therefore, the EAC's role is to be a public one, it seems to me that it must be seen to have independent status separate from the Government machine, even if it means setting it up at a time when, generally, you are cutting down the number of quangos and similar bodies. Anything less will reduce its credibility, and this in turn will make it more difficult to attract members of the right calibre. But inherent in independent status is, plainly, the possibility of conflict with the Government's views on economic policy. We shall have to live with that.

As for the size of the Council, four or five members might be better than three. Three might make the membership too narrow. Four or five could be expected to embrace a wider spectrum of thought, while stopping short of the point where the size of the Council led to internal division and thus to impotence.

Do you wish, as the next step, to discuss the paper with the Chancellor of the Exchequer? *Thereafter, to E which will be considering a paper by the Chancellor on the ~~foreign~~ related subject of the Forum in the weeks' time?*

*AWJ.*

18 June 1979



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

15 June, 1979

*Dear Chris,*

ECONOMIC ADVISERS' COUNCIL

Ken Stowe wrote to me on ~~May 30th~~ concerning the Prime Minister's request for a paper which colleagues could consider on the possible terms of reference, composition and method of operation of a Council of Advisers.

We subsequently agreed with Ken Stowe that Adam Ridley would prepare a paper by today for the Prime Minister and Chancellor to consider before circulation to the Ministerial Committee on Economic Strategy.  
... I enclose a copy of such a paper.

I am afraid the Chancellor has not had the opportunity to give as much consideration as he would have liked to the paper, the wider implications of the issues it raises or the question of candidates for membership. But the enclosed paper tries to take some account of his reactions to an earlier draft and he is content that I should let you have it for the weekend box.

The Chancellor will be glad to discuss the paper with the Prime Minister if she would find a talk helpful.

*Yours ever,  
Tony Battishill*

(A.M.W. BATTISHILL)

C.A. Whitmore, Esq.,

CONFIDENTIAL

PRIME MINISTER

Council of Economic Advisers

In case you wondered whether we had all forgotten it - I asked Adam Ridley, through the Chancellor's office, to produce the paper for you setting out terms of reference, functions, modus operandi and possible membership. I also asked that this should be produced quickly and not held up for the Chancellor's consideration. In the event, the Chancellor decided that although a paper was ready he did not really feel able to let it go forward without setting his own views forward. I pressed for this to be done by close of play this week, but it has been urged on me that the Chancellor is under such pressure with the Budget that we should really forbear. I agreed, as I am sure you would have wished, and it is left that the Chancellor will put forward a paper about the Council with a view to an early announcement of your intentions as soon as possible after the Budget.

CF  
BF  
Friday P.m. 15.6.79  
R

Agreed under load  
ms.  
KRS

8 June 1979

CONFIDENTIAL

M



10 DOWNING STREET

From the Principal Private Secretary

13  
B/F 66-79

30 May 1979

Council of Economic Advisers

The Prime Minister has been giving further thought to a proposal, of which the Chancellor will be fully aware, to establish a Council of Economic Advisers. She is anxious to get on with this so that the Council can be established as soon as possible after the Budget. She realises that the Chancellor himself will be preoccupied with Budget preparations at the moment and she suggests that one way of proceeding which would make minimal demands on his time would be if Mr. Adam Ridley were to prepare a paper on this subject for consideration by the Chancellor, the Prime Minister and colleagues most closely concerned.

If the Chancellor is content to proceed in this way, the Prime Minister would like Mr. Ridley to prepare a draft for her consideration, and the Chancellor's, setting out possible terms of reference and composition of the Council and discussing how it might be expected to operate. The Chancellor may wish to consider Mr. Ridley's paper himself before forwarding it on to the Prime Minister but, as I have indicated above, the Prime Minister is anxious not to have to add to his burdens and would be content to receive a draft simultaneously without waiting for the Chancellor to express his own views on it first. The Prime Minister envisages that once the paper has been agreed between herself and the Chancellor, it should be circulated to the Ministerial Committee on Economic Strategy for discussion with colleagues and early implementation.

The Prime Minister has had some ideas of her own about possible membership of the Council, but she would, of course, be very glad to receive the Chancellor's ideas.

I am copying this letter to John Hoskyns and to Sir John Hunt.

K. R. STONE

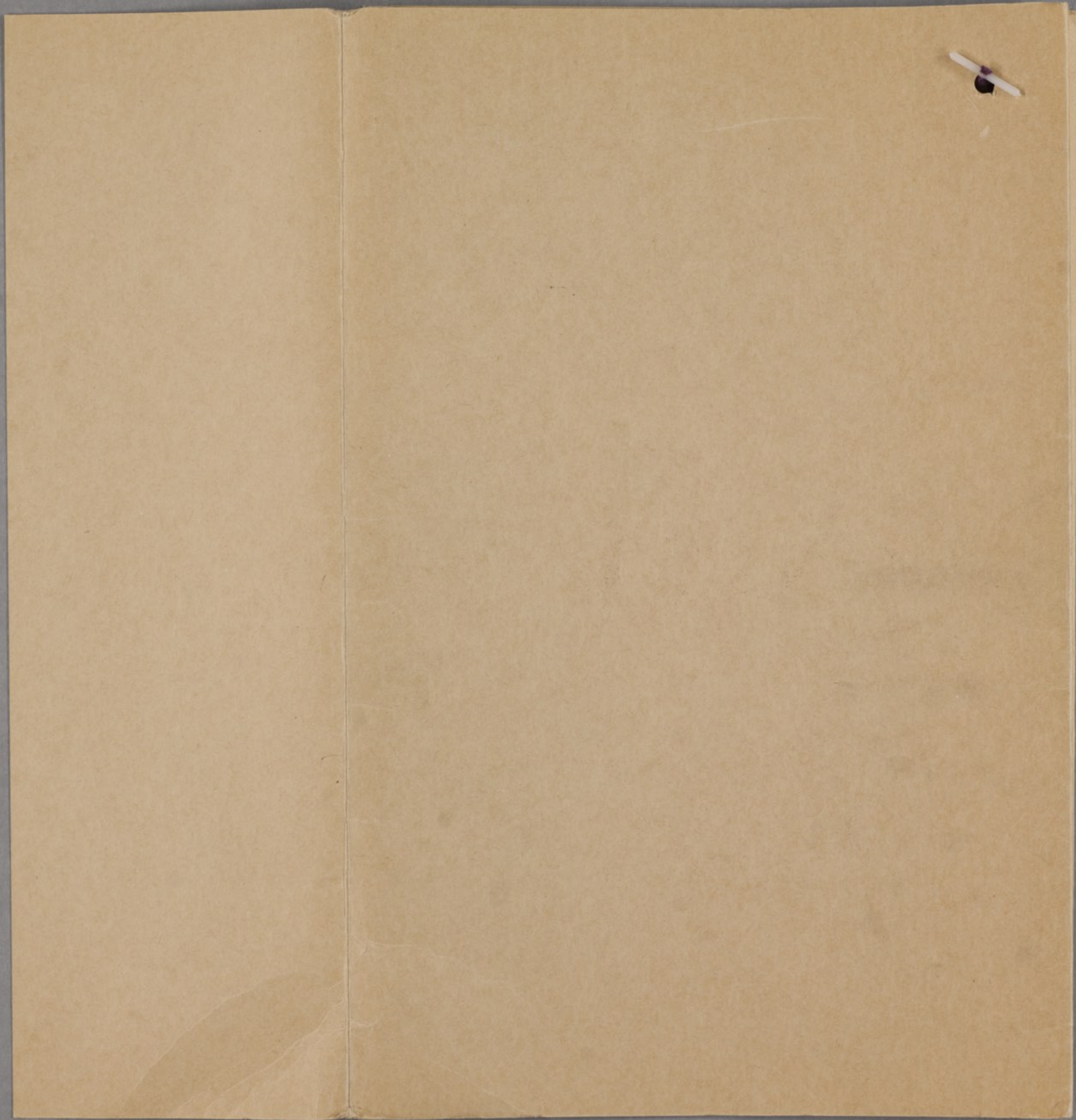
A. M. W. Battishill, Esq.,  
H.M. Treasury.

Mr. Wolfson

CONFIDENTIAL

M





END

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