

Confidential Filing

ECONOMIC EFFECTS OF  
INDUSTRIAL ACTION

ECONOMIC  
POLICY

MARCH 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>6-3-81</del>							
11-3-81							
<del>18-3-81</del>							
<del>24-3-81</del>							
25.3.81							
PREM 19/4/81							



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10 DOWNING STREET

From the Principal Private Secretary

25 March 1981

Dear John,

ECONOMIC EFFECTS OF INDUSTRIAL ACTION

In his minute of 25 February to the Prime Minister the Chancellor of the Exchequer suggested that an official group should be established, centred on the Cabinet Office, to assess the economic significance of particular industrial threats which (because they do not create immediate threats to health and survival) do not come within the remit of the Civil Contingencies Unit (CCU) and, if possible, to identify the pressure points to which any contingency action might be directed. The Prime Minister has now considered this proposal, together with the Secretary of State for Industry's comments of 18 March.

The Prime Minister agrees that this additional work would not be suitable for the CCU, and she understands that the Home Secretary also takes this view.

As the Prime Minister understands it, the present arrangements provide for a decision to be taken at the outset, i.e. when a strike is foreseen as a possibility or is imminent, on which of two main courses should be followed. If it is agreed between the Cabinet Office and the sponsor Department that a particular strike (or prospective strike) does not fall within CCU's purview, because it does not endanger 'supplies and services essential to the life of the community', the lead Department handles the consequences of the strike under its own arrangements, consulting other Departments as necessary but not involving the CCU machinery. This is what happened in the case of the steel strike. Alternatively, if it is agreed that a strike does come within CCU's purview, the sponsor Department still takes the lead in terms of executive responsibility, and almost always sets up an emergency operations room. Its activities are supported by the CCU, which has no executive functions but ensures co-ordination and, as necessary, arranges for collective Ministerial consideration of the problems involved. This is what happened in the case of the firemen's strike. The Prime Minister is satisfied that this approach is right and that as a general rule such situations are best managed by the Department with primary responsibility for the industry concerned.

As to longer term planning for remedial action, the Prime Minister considers that that is better done ad hoc, with the

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Department primarily concerned in the lead and clearly responsible. To the extent that advance planning can be undertaken ahead of the dispute breaking out, it should be; but industries in which disputes occur cover such a wide range, and the circumstances of disputes can vary and change so much, that the Prime Minister believes that preparation is likely to be most effective if it is closely related to the circumstances of specific cases, and that contingency planning which is too hypothetical and advanced is not likely to help very much when the time comes.

The regular reviews of pay claims in the public services, and more generally in the public sector, provide an opportunity for identifying disputes which might be coming, and for Ministers to suggest that advance planning should be put in hand. It is then the responsibility of the Minister in charge of the lead Department to initiate analysis and action of the right kind and in good time.

For these reasons, while she fully agrees with the Chancellor on the importance of effective and comprehensive arrangements to deal with actual and threatened industrial action, the Prime Minister thinks that that can and should be achieved without setting up new central machinery.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Secretary of State for Industry, the Lord President of the Council, the Secretaries of State for Employment, for Scotland, for Wales, for Trade, for Energy, and for Transport and the Attorney General, and to Sir Robert Armstrong.

Yours ever,

Harriet Whitman.

A J Wiggins Esq.,  
H M Treasury.

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Ref: A04526



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MR. WHITMORE

Prime Minister  
Content for me  
to write to  
proposed?

Yes no 24<sup>th</sup>

Economic Effects of Industrial Action

Thank you for your minute of 13<sup>th</sup> March in which you record that the Prime Minister wishes to reply to the Chancellor of the Exchequer's minute of 25<sup>th</sup> February on the lines of my minute of 2<sup>nd</sup> March to Mr. Lankester.

I attach a draft Private Secretary letter.

*RA*

Robert Armstrong

24th March 1981

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DRAFT LETTER FROM THE PRINCIPAL PRIVATE SECRETARY  
TO THE PRIME MINISTER TO THE PRIVATE SECRETARY TO  
THE CHANCELLOR OF THE EXCHEQUER

Economic Effects of Industrial Action

In his minute of 25th February to the Prime Minister the Chancellor of the Exchequer suggested that an official group should be established, centred on the Cabinet Office, to assess the economic significance of particular industrial threats which (because they do not create immediate threats to health and survival) do not come within the remit of the Civil Contingencies Unit (CCU) and, if possible, to identify the pressure points to which any contingency action might be directed. The Prime Minister has now considered this proposal, together with the Secretary of State for Industry's comments of 18th March.

2. The Prime Minister agrees that this additional work would not be suitable for the CCU, and she understands that the Home Secretary also takes this view.

3. As the Prime Minister understands it, the present arrangements provide for a decision to be taken at the outset, i. e. when a strike is foreseen as a possibility or is imminent, on which of two main courses should be followed. If it is agreed between the Cabinet Office and the sponsor Department that a particular strike (or prospective strike) does not fall within CCU's purview, because it does not endanger 'supplies and services essential to the life of the community', the lead Department handles the consequences of the strike under its own arrangements, consulting other Departments as necessary but not involving the CCU machinery. This is what happened in the case of the steel strike. Alternatively, if it is agreed that a strike does come within

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CCU's purview, the sponsor Department still takes the lead in terms of executive responsibility, and almost always sets up an emergency operations room. Its activities are supported by the CCU, which has no executive functions but ensures co-ordination and, as necessary, arranges for collective Ministerial consideration of the problems involved. This is what happened in the case of the firemen's strike. The Prime Minister is satisfied that this approach is right and that as a general rule such situations are best managed by the Department with primary responsibility for the industry concerned.

4. As to longer term planning for remedial action, the Prime Minister considers that that is better done ad hoc, with the Department primarily concerned in the lead and clearly responsible. To the extent that advance planning can be undertaken ahead of the dispute breaking out, it should be; but industries in which disputes occur cover such a wide range, and the circumstances of disputes can vary and change so much, that the Prime Minister believes that preparation is likely to be most effective if it is closely related to the circumstances of specific cases, and that contingency planning which is too hypothetical and advanced is not likely to help very much when the time comes.†

5. The regular reviews of pay claims in the public services, and more generally in the public sector, provide an opportunity for identifying disputes which might be coming, and for Ministers to suggest that advance planning should be put in hand. It is then the responsibility of the Minister in charge of the lead Department to initiate analysis and action of the right kind and in good time.

6. For these reasons, while she fully agrees with the Chancellor on the importance of effective and comprehensive arrangements to deal with actual and threatened industrial action, the Prime Minister thinks that that can and should be achieved without setting up new central machinery.



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7. I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Secretary of State for Industry, the Lord President of the Council, the Secretaries of State for Employment, for Scotland, for Wales, for Trade, for Energy, and for Transport and the Attorney General, and to Sir Robert Armstrong.





PRIME MINISTER

## ECONOMIC EFFECTS OF INDUSTRIAL ACTION

1 In his note to you of 25 February, Geoffrey Howe suggests that we should have some machinery permanently available to assess the economic significance of particular industrial threats and also, if possible, to identify the pressure points to which any contingency action might be directed.

2 As Geoffrey points out, the Civil Contingencies Unit (CCU) is concerned only with the essentials of life. Its remit does not extend to the industrial or economic consequences of industrial action and special ad hoc arrangements have had to be made to assess and monitor the effects of major disputes such as the steel strike. In the circumstances it would be useful to have some standing machinery available.

3 Before any extra machinery is established, however, I think we should look closely at two points. First, the machinery must be capable of ensuring that effective action can be taken; there will be no advantage in creating a talking shop. Secondly, many small and local disputes have a potential for damage out of proportion to the factors underlying the dispute, for example major capital investments, such as blast furnaces, may be put at risk or a sizeable proportion of industrial production could be jeopardised by the interruption in the supply of materials like industrial gases. The machinery might be established so that it can look at such problems, even though it is not easy to identify

/problems ...

Prime Minister

see Hoskyns 2

You have already agreed with Robert Armstrong that we should not set up any new machinery. I do not think this minute from Keith Joseph adds anything to the argument.

TL 18/3

Econ Bl





problems of this sort in advance.

4 I am copying this minute to Geoffrey Howe, William Whitelaw, Christopher Soames, James Prior, George Younger, Nicholas Edwards, John Biffen, David Howell, Norman Fowler, Michael Havers and Sir Robert Armstrong.

KJ

K J

18 March 1981

Department of Industry  
Ashdown House  
123 Victoria Street



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VLS



FILE

cc Hoskyns

10 DOWNING STREET

From the Principal Private Secretary

BF 26.3

SIR ROBERT ARMSTRONG

Economic Effects of Industrial Action

When you saw the Prime Minister this evening about forthcoming business for Cabinet and Cabinet Committees, you also discussed with her your minute A04339 of 2 March 1981 which offered advice on the Chancellor of the Exchequer's minute of 25 February.

You said that, in your view, the work that was being done on the possibility of industrial action in the coal industry was the right way to set about the kind of assessment of the economic significance of particular industrial threats which the Chancellor was seeking. On this occasion, the problem had been identified well in advance and it was now being examined in all its aspects, with the Department with primary responsibility in the lead. If we proceeded in the same way in respect of other industrial threats, we should avoid setting up some large piece of machinery.

The Prime Minister agreed that the last thing that was wanted was a new apparatus to provide the assessments the Chancellor wanted. If formal machinery was set up, its activities would almost certainly leak quickly. She would therefore reply to the Chancellor on the lines of your minute of 2 March 1981, and you undertook to provide a draft Private Secretary letter.

C. A. WHITMORE

CS

13 March 1981

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SECRET

11 March 1981

Policy Unit

PRIME MINISTER

ECONOMIC EFFECTS OF INDUSTRIAL ACTION

mt

1. Geoffrey suggested that CCU-type preparation should extend from matters of health and survival to economic effects.. Sir Robert Armstrong has provided you with some advice on this idea; you are due to discuss it with him on Friday, 13 March.
2. We feel that Geoffrey has put his finger on an important gap in the system. There is nothing like enough thinking in advance about vulnerable points in the economy. For example, we have on several occasions suggested that some contingency planning is done with the aim of detering industrial action by the miners. Only now, faced with recent events, is that being undertaken. If it had been done a year ago, the miners might have been that much less willing to rush into the threat of industrial action last month.

Thinking ahead

3. We agree with Sir Robert that this kind of thinking - perhaps as much as a year in advance - should be the responsibility of the relevant Department. Where nationalised industries are involved, it should be an integral part of a Department's scrutiny of forward plans.
4. Unfortunately, experience suggests that Departments cannot be relied upon to do this work systematically. They need:
  - (a) A stimulus from outside (eg from Treasury, Cabinet Office or No.10) to do it.
  - (b) Some reporting mechanism to check on the thoroughness of the work and to decide on any wider issues that forward thinking throws up (eg expanding the electricity industry's EFL to take more coal stocks).
5. We therefore think that someone needs to be responsible for prodding and checking up on Departments in key areas of vulnerability. The first task would be to draw up a list of the vulnerable points.

SECRET



SECRET

Ad hoc plans

6. Quite apart from this advance thinking, there is the ad hoc preparation that is necessary when a particular threat is looming. We agree that this can be done with the relevant Department in the lead. The main danger is that it will not be done early enough. Again, someone should be responsible for initiating ad hoc work.

Communication

7. Finally, there is the Government's need (and responsibility) to explain the wider economic effects of particular disputes to the public and the participants. Often Government is inhibited, partly because we do not have the facts at an early stage; partly because we seem unsure of our moral position or excessively reluctant to appear to "get involved". As a result, we often fail to put over a strong moral case or to establish the right yardsticks in the public mind. (For example, in the firemen's dispute our strong case went by default because we had not prepared the ground: the issue was seen as our failure to honour an agreement, instead of firemen's insistence, to the point of risking others' lives, that they should be completely insulated from the temporary fall in living standards that most of us have to accept.)
8. We are not sure who should be charged with this: perhaps it is a job for Francis Pym's office. A Cabinet Office or Treasury unit could ensure that the facts about the wider economic impact of disruption were available to him.
9. I hope you can take some of these points into account when you discuss this subject with Sir Robert. Perhaps it would also be useful to have the originator of this idea, Nigel Lawson, present at your meeting.



JOHN HOSKYNs

*Proposition*

*If you want Nigel to  
come in, it would be better  
to have a separate meeting.*

SECRET



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Blind cc: Mr Vereker  
Mr Duguid

ECON POL

SA 12.3.81

MR WRIGHT  
CABINET OFFICE

ECONOMIC EFFECTS OF INDUSTRIAL ACTION

The Prime Minister was grateful for Sir Robert Armstrong's minute of 2 March (Ref. A04339). She would like to discuss this with him at their next business meeting on Friday, 13 March.

I. P. LANKESTER

6 March, 1981

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CC J. Verche

Govt Machinery  
Pt 1: Civil  
Contingencies Unit

Yes  
not

Pmi Minute  
would you like to  
discuss this with Robert  
Armstrong at his next  
"business" meeting? otherwise,  
I can tell him your reaction,  
especially on para 6.

Ref. A04339

MR LANKESTER

Economic Effects of Industrial Action

Play A

You asked for advice on the Chancellor of the Exchequer's minute of 25 February to the Prime Minister in which he suggests that an official group should be established, centred on the Cabinet Office, to assess the economic significance of particular industrial threats which (because they do not create immediate threats to health and survival) do not come within the remit of the Civil Contingencies Unit (CCU) and, if possible, to identify the pressure points to which any contingency action might be directed. I understand that, though this minute is signed by the Chancellor, its principal begetter is the Financial Secretary.

2. The Chancellor suggests that this would not be a job for the CCU. I understand that the Home Secretary, while not expressing an opinion on the general proposition, is quite clear that this additional work would not be suitable for the CCU. I agree with this. The CCU is concerned with "essentials of life" situations, and is primarily an organisation for planning and coordinating responses "on the ground".

3. The starting point for the proposal is that there are particular industrial disputes (steel, the docks and possibly road haulage being the examples the Financial Secretary has in mind) which can cause severe economic damage but which fall outside CCU's "essentials of life" remit; the new group would identify such disputes in advance and pre-plan remedial action which might overcome or mitigate the economic penalties.

4. We have always taken the view that industrial disputes that did not engage the responsibility of CCU were best handled outside the central machinery. Thus, for the firemen's strike, the Home Office took the lead in planning and coordinating remedial action, setting up an operations room in continuous touch with the fire authorities and the Ministry of Defence, and consulted other departments as needed. Similarly in the steel strike the Department of Industry took the lead: it similarly set up an ad hoc emergency





operation, collecting information about the availability and movement of supplies and the state and survival capacity of the steel-using industries. I still think that this is right, and that as a general rule such situations are best managed by the department with primary responsibility for the industry concerned; I doubt whether there is a place for new central machinery for the sort of task the Chancellor's minute has in mind.

5. It is not very difficult at any given time to identify potentially troublesome disputes in advance, and we do not need new machinery for that. If it is a matter of planning remedial action, it seems to me that that is better done ad hoc, with the department primarily concerned clearly responsible in the lead. To the extent that advance planning can be undertaken ahead of the dispute breaking out, it should be; but industries in which disputes occur cover such a wide range, and the circumstances of disputes can vary and change so much, that I suspect that preparation is likely to be most effective if it is closely related to the circumstances of specific cases, and that contingency planning which is too hypothetical and advanced is not likely to help very much when the time comes. The risk is of creating a new piece of bureaucratic machinery which creates work out of proportion to the likely benefits.

6. What would perhaps be helpful would be some means of ensuring that, once the possibility of a dispute was foreseen, the department concerned would take action in good time to analyse its economic significance and to consider what (if any) action the Government (or the industry) could or should take to counteract its effects. This involves:

- (a) seeing the dispute coming;
- (b) identifying the department with the leading responsibility;
- (c) making sure that the Minister in charge of the department initiates analysis and action of the right kind in good time.

We do not need another central group to do that. The regular review of pay claims should look after (a). If the Prime Minister felt that there was any danger of Ministers failing to recognise their responsibility and to take appropriate action, that could be remedied either:

- (i) by having industrial affairs regularly on the agenda of Cabinet



or the Ministerial Committee on Economic Strategy, to give Ministers a chance to see what was coming and make sure that whatever could be done was done; or

- (ii) by the Prime Minister sending round a minute to her colleagues reminding them of their responsibility and of the need to take action in good time.

7. When the Prime Minister has had a chance to think about this, perhaps I could discuss it with her (perhaps at our next "business" meeting) and take instructions on the preparation of a draft reply to the Chancellor's minute - unless of course she is content with the general line of his minute, in which case I will prepare a reply accordingly.

REA

ROBERT ARMSTRONG

2 March 1981



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

PRIME MINISTER

*Handwritten signature*

*Handwritten initials*

ECONOMIC EFFECTS OF INDUSTRIAL ACTION

The Civil Contingencies Unit has been doing valuable work in connection with threats of industrial action which, if they materialised, would damage the health and safety of the community. Water is the latest example. The CCU has also been considering the question of whether we should at least prepare for the possible need to extend the legal definition of an "emergency" under the Emergency Powers Act of 1920; I understand that, subject to the availability of parliamentary draftsmen, some illustrative work will be put in hand.

2. I am, however, concerned that, while the Civil Contingencies Unit does valuable work on the emergency measures needed to maintain supplies and services essential to the life of the nation in the event of a major industrial dispute, its remit does not extend to more general measures to maintain economic activity which, while vital to the prosperity of the nation, may not be an immediate matter of health or survival. During the steel strike, special steps were taken to monitor the economic effects as they arose; estimates were also made of the likely effects on production and national income in the longer run. In the case of the docks, similar arrangements were contemplated, but had not been fully activated before the threat receded. I wonder whether one should not go further and have some governmental machinery permanently available to assess the economic significance of particular industrial threats and also, if possible, to identify the pressure points to which any contingency action might be directed.

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3. One way of dealing with this might be to give the Civil Contingencies Unit a wider remit, but, since the work might be rather difficult, involving different skills, it could be right to think of a separate group, though it might still be centred on the Cabinet Office. This is something you might wish to consider.

A handwritten signature in black ink, appearing to be "G.H.".

(G.H.)

25 February 1981

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