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LEADER'S STEERING COMMITTEE

Minutes of the 32nd Meeting held at 5.00 p.m. on Monday, 7th July, 1975 in the Leader's Room at the House of Commons.

Present: Mrs. Thatcher (In the Chair)

Mr. Whitelaw, Sir Keith Joseph, Mr. Maudling, Sir Geoffrey Howe, Mr. Gilmour, Mr. Prior, Mr. Maude, Mr. Peyton.

Mr. Weatherill, Mr. Shelton, Mr. Patten, Mr. Ridley, Mr. Nicholson (In attendance).

Apologies: Lord Carrington, Lord Thorneycroft.

Timing of the Government's White Paper

1. There was a short discussion. From reports from various sources it appeared that the date for the publication of the Government's White Paper was more likely to be Friday than Thursday, as originally intended. Representatives of the food industry were meeting Mrs. Williams on Wednesday morning, and that seemed to indicate that the White Paper could not appear on Thursday unless there was a special Cabinet meeting on Wednesday afternoon.

Reactions of MPs and the Party

2. Mrs. Thatcher said that at her meetings over the weekend, great resentment had been expressed at the likelihood of employers having to bear the brunt of the measures to reduce inflation. She reported that she had received numerous messages from MPs indicating that, while very few wanted us to vote against the Government's package, there was general anxiety lest we should, by supporting it, enable the Government to continue with their programme of socialism. A number of MPs would wish to vote against tighter price controls if these were unaccompanied by any effective controls on pay.

The Government's Options - Sanctions for Price Control and Pay Control

3. A paper by Sir Geoffrey Howe, which had been circulated, suggested that the Government might, in the first stage of their policy, rely on a tightened price code, and then, as the rate of inflation began to fall in response to union co-operation, move to a system of penal sanctions involving taxes or fines on "rogue" employers. It was pointed out that the existing Price Code permitted fines on employers of up to £400 on summary conviction, but these powers had never been used. It was thought that some degree of price control might be acceptable to us as the inevitable cost that a Labour Government had to pay to gain union acquiescence in doing what was economically necessary, taking a firm stand on public sector pay, and simultaneously stiffening private employers' resolve.

4. It was suggested that if unions threatened employers with industrial action to extract higher pay than the norm, they would be aiding and abetting employers to break the law, but it was doubtful whether unions could be proceeded against since the Industrial Relations Act had been repealed. It was agreed that Mr. Prior should ask Mr. Leon Brittan to prepare a note on the present state of the law on enforcing contracts.

/... 5. Mr. Prior suggested

5. Mr. Prior suggested that we should not be too concerned about the problem of enforcement in the private sector. The main question was whether the Government would have the willpower to hold the line in the public sector, and a number of employers thought that it was as good a system as the Government could devise. Nor should we worry too much about the differences between voluntary and statutory pay restraint. While the latter involved the law, the former involved the authority of the Government. In both cases it was necessary to hold the line, and in both, militants would be tempted to pose a challenge. It was suggested that the Government policy would probably not be challenged until after Christmas when the wage round would begin in earnest.

6. Sir Keith Joseph expressed a fear that if the Government managed to cut the rate of inflation later this year, they would be tempted to reflate next year. He was also worried about the Government imposing flat rate limits on pay increases which would distort differentials and the labour market. There might be a role for wage control at present as a means of manifesting the Government's willpower to foreign holders of sterling and preventing burgeoning public expenditure strangling the private sector, but these wage controls would need to be phased out.

7. It was suggested that the Treasury was anxious over how cash ceilings would operate, and that we should insist that they should operate on the wages bill of the nationalised industries, thus preventing them paying an increase above the norm, promising to recoup it by cutting investment programmes at some indefinite point in the future, and then eventually being permitted to default on that promise. We should remind the Government of Mr. Healey's crystal clear declaration: "We propose to fix cash limits for wage bills in the public sector so that all concerned may understand that the Government are not prepared to foot the bill for excessive settlements through subsidies or borrowing or by loading excessive costs on the public through increases in prices and charges." (Hansard, 1st July, 1975 cols. 1189-90). This emphasis was especially necessary in view of more recent fears that Mr. Wilson was likely to retreat.

<u>Public Spending Cuts</u>

8. How, it was wondered, would these lead now to reduced inflation. Mrs. Thatcher pointed out that a 10 per cent norm on pay increases in the public sector instead of the likely 25 per cent or more, would itself involve a significant reduction now in the rate of increase of public spending - even allowing for the fact that the Budget estimate of the borrowing requirement assumed a lower rate of inflation than there was at present. It was agreed, however, that further immediate cuts in public spending were necessary to help confidence and sterling. One obvious example was the immediate dropping of further nationalisation, which might save £200 to £300 million this year, and cuts in food and housing subsidies. Another possible area was public building (but major projects were understood to have been already frozen over the next few months). Some charges should also be increased, for example, the price of school meals, possibly by 5p, and the charge for adult education. It was thought that the Government would find no difficulty in producing cuts of £1,500 million in the current year if they showed resolution.

9. Mr. Maudling said that, while agreeing with the policy of gradually phasing out food and housing subsidies, he thought we should explain frankly to the electorate that this would increase the cost of certain basic essentials. On the other hand, it was suggested that we should not invite opprobrium: it was the Government's job to spell out the unpleasant consequences of its inaction and its damaging policies. Clearly, living standards must now fall, and we might not be able to avoid spelling this out from our side.

/... <u>Reacting to the</u>

Reacting to the Government's Package

10. It was noted that the Government would probably have a Ministerial broadcast on the evening of the White Paper's publication, and we should have to follow on the next evening. There was a short discussion on the problems involved in our having to broadcast on Saturday evening. It was unlikely that we could avoid this if the Government broadcast on Friday, but we should either limit our broadcast to five minutes or give it in the form of an interview, and we should take care to let the Sunday papers have the text in good time.

11. It was suggested that there would be pressure from the Press and within the Party (perhaps stimulated by industrialists) for us to support the Government's measures. But it was important to get across, as soon as possible, just how little the Government was yielding: for example, there was no change in their nationalisation programme. Mr. Maude pointed out that a campaign was being prepared, involving the party organisation, and directed against the Community Land Bill; it was designed to arouse public support for our amendments when the Lords considered the Bill in September. The Petroleum and Submarine Pipelines Bill was another example of legislation which was either futile and wasteful of Parliament's time, if the Government did not use its powers, or damaging if the Government paid the oil companies large sums for state control, which might then be invested elsewhere.

12. It was suggested that Mr. Wilson did not want our support. Our opposition would make his package more acceptable to his own party, and he was understood to be claiming that whether or not he retained the support of his left wing, he would split the Conservative Party decisively. There might, of course, not be a vote. If Mr. Wilson feared a revolt by his Left, the motion could simply be to "take note" of the White Paper. The following further points emerged from the discussion on our reactions:

(a) We must explain fully the principles which lay behind our attitude. If the Government were making a genuine effort to reduce inflation, this would help savings and the middle income groups, and we should welcome it. But we should draw attention to any dangers inherent in the Government's approach: we should condemn methods of combating inflation which further threatened private enterprise (e.g. by tighter price controls and putting the onus on employers); we should put the case against a flat rate wage norm; and we should emphatically condemn any refusal to make concessions on nationalisation

(b) If we welcomed the Government's measures cautiously, subject to the reservations in (a), it was unlikely that we would be regarded as accessory to any consequences which later appeared as a result of the Government's approach.

(c) If a vote were taken, the best course was to abstain. A reasoned amendment was probably not the best approach, and reference was made to the embarassing three-way split over reasoned amendments on the Second Reading of the Race Relations Bill and over Rhodesian sanctions in 1965. It was thought that if we were careful, we might avoid the dangers of a three-way split on this issue.

13. It was agreed that members should endeavour to remain free to meet on Friday if the White Paper appeared then, to consider their line for speeches and interviews over the weekend. It was also agreed that, if the White Paper came out on Friday, we should object to debating it during the following week.

The meeting closed at 6.15 p.m.

Conservative Research Department,
24 Old Queen Street, London, S.W.1

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