

STEERING COMMITTEE

Minutes of the Thirteenth Meeting held at 5.00 p.m. on Monday, 15th July 1974, in the Leader's Room at the House of Commons

Present: Mr. Heath (In the Chair)  
 Sir Alec Douglas-Home  
 Mr. Whitelaw  
 Mr. Prior  
 Mr. Carr  
 Lord Carrington  
 Sir Keith Joseph  
 Mr. Walker  
 Mr. Gilmour  
 Sir Geoffrey Howe  
 Lord Windlesham  
 Mr. Atkins (from 5.20 p.m.)  
 Lord Fraser (Secretary)  
 Mr. Jenkin  
 Sir Timothy Kitson )  
 Mr. Wolff ) (In attendance)  
 Mr. Sherbourne )  
 Mr. Waldegrave )

Apologies: Mr. Pym

1. Future Meetings

Mr. Heath explained the re-arrangements for Shadow Cabinet meetings during the week. Mr. Walker and Mr. Whitelaw stressed the urgency for having our Housing and Rates policy cleared as early as possible for use in the marginal seats.

2. Inflation and Unemployment (LCC/74/33)

Mr. Carr said that the paper had been written by Mr. Higgins and Mr. Howell as a basis for discussion. The whole area of economic and industrial relations policy was now being examined by a small Committee consisting of the junior official spokesmen on Treasury and Employment affairs. When this Committee reported there would be something more substantial to discuss.

The policies in the paper were intended as a package. He drew attention to the alternative paragraphs dealing with a temporary pay freeze and the protection of people's real incomes, and said that he himself favoured a statutory freeze combined with some form of index linking.

Mr. Carr said that while he would make every effort to obtain voluntary co-operation, he was as convinced as ever that some form of incomes policy was absolutely essential and he did not think that plain monetary and fiscal policies would stand alone. He thought that it would be unwise and unnecessary to go into details about a statutory policy in the Manifesto.

He thought that any freeze would have to be announced as soon as the Government took office, possibly with some form of index linking, with the time used during the period of the freeze for

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talks between both sides of industry. But these talks must not be allowed to drag on throughout the winter and spring.

He felt it would be unwise to say too much about indexation before an election. We were already moving in that direction with thresholds and a six-monthly review of pensions. He believed that there must be some form of index linking for savings, but the authors of the paper believed that savings would be inevitably depressed as a result of the indexation of Government stocks unless these were a limited edition, and this in their opinion would not be worth while. He did not necessarily share this opinion. He thought we should not go into details of index linked taxation before an election. He preferred pay thresholds.

Mr. Walker was worried that many of the causes of inflation such as world prices were beyond our control and that in these circumstances indexation would have a multiplying effect. The three-day week had shown what enormous potential there was in the country for increased productivity. He thought that a formula whereby employers and employees worked for maximum profit and earned themselves big wage increases - which would also be linked to jobs in which productivity could not be increased - would create a national atmosphere of incentive to work. Nor should it be inflationary.

Mr. Carr thought that a freeze based on a positive expansionary programme might work, but he felt that in the circumstances of this autumn we had to be realistic.

Lord Carrington said that a freeze was not politically acceptable unless it was combined with indexation, given the rate at which inflation was now running. He nevertheless agreed with Mr. Walker that this would not encourage people to work harder. Mr. Walker thought that something more positive than indexation was needed by the Party. The three-day week had shown that a 25 per cent increase in productivity was possible and this was the direction in which we should be working.

Sir Geoffrey Howe did not think that this sort of increase in productivity could be achieved without substantial unemployment. He also thought that a freeze was politically unrealistic, as Canadian experience had shown. Without ruling out a freeze altogether, we should be talking more about controlling incomes. Monetary policies would play a significant part in this. Mr. Walker suggested that there should be a productivity bonus in preference to a freeze with indexation - although it would be necessary to have a freeze initially.

Sir Geoffrey Howe thought that the productivity plan argument had been used so often in the past it now lacked credibility. Mr. Carr said that there was a difference between Mr. Walker's proposal and what had been done before - Mr. Walker was thinking of bonuses for companies on the basis of actual performance as opposed to expected performance.

Sir Keith Joseph disagreed with the paper in general and with the Industrial Forum proposal in particular. He believed that the country's malaise was overmanning. He agreed with Mr. Walker about productivity but said that if productivity was increased there would have to be fewer jobs unless demand was also increased. He did not think that other members of the Committee had taken into account the apocalyptic conditions of

the autumn. The conditions alone would produce a freeze without Government action. He referred to unemployment, balance of payments, bankruptcies, the Italian situation, loss of confidence.

Lord Windlesham said that while much of what Sir Keith said might well be true the Party's policies for the next election had to be realistic. There was all the difference between what one feared might happen and indicating the direction in which you were trying to lead people. He thought the Industrial Forum idea or something like it was a good one.

Sir Keith thought that we must explain why, in the existing circumstances - because of our balance of payments and inflation - we could not do what we would like to do; and that beating inflation was our top priority. In his view, present policies would begin to bite in about eighteen months time. The introduction of reflationary measures to prevent unemployment rising would make it take longer. He thought that we should go back to the exercise which was started in government on redefining unemployment. He thought that we would find that on this basis just over half the present figure would be involuntarily unemployed.

Mr. Carr said that much higher levels of unemployment seemed acceptable to people now than ten years ago. It was pointed out that this acceptance was dependant on benefits.

Sir Geoffrey Howe said that despite the argument, the actual disagreement between the members of the Committee was not wide. All were agreed that inflation was the main enemy. He thought that the present monetary course would bring it under control, with perhaps an increase in unemployment. He agreed with the idea of a Forum in which ways of controlling inflation could be discussed. Other points on which there seemed to be agreement were the need for research into public sector pay settlements, ways of increasing productivity and the need to redefine unemployment. We should not commit ourselves to the details of any pay policy.

A discussion followed on public sector pay negotiations. Three-year agreements were desirable but not practicable: groups of workers would come back for more before the end of the three years, even despite preferential treatment.

On indexation, Mr. Heath said that this had been discussed with the CBI and the TUC. The TUC were not keen and preferred thresholds. There were anyway considerable problems, for example it was impossible to index the social services on a monthly basis - it was difficult enough on a six-monthly basis.

Mr. Heath said that it might be better to have reviews rather than an automatic arrangement. Mr. Carr said that he preferred indexation to subsidies. Nevertheless, he did not wish to get himself committed in a hurry. Other countries' experience had shown that while it might be fair, it was very complicated administratively. In Holland and Belgium where they had had some success with indexation, the trade unions were prepared to accept increases of  $1\frac{1}{2}$  per cent plus indexation but Mr. Heath did not think that our trade union leaders would be so agreeable.

3. State Financing of Political Parties

The Chief Whip circulated a note that he had sent to Mr. Heath reporting on his talks with the Leader of the House on this and other subjects.

There was a discussion. It was agreed that there was no objection to the appointment of a Select Committee to consider assistance and facilities for back-benchers. It was also agreed that there would be no objection to the Government announcing its intentions on State help for Opposition parties.

4. Trade Union and Labour Relations Bill

The Chief Whip set out the position following on the vote in the House of Commons on Thursday, 11th July. The Government had put forward proposals for dealing with the matter.

These were considered. The Committee preferred to have the particular amendments put in by the House of Lords before the Bill returned to the Commons. Lord Windlesham said that in his view the voting muddle was a House of Commons matter and he hoped that it could be dealt with there. The Chief Whip, however, said that there was a procedural device which would bring the Bill back from the House of Lords in order to allow the House of Commons to rectify its mistake. It was agreed that this should be pursued.

The meeting adjourned at 6.45 p.m.