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John Hoskyns 17/9/80

PRIME MINISTER

LOSS-MAKING NATIONALISED INDUSTRIES

1. The increased demand on the taxpayer by the nationalised industries set out in papers by John Biffen and others is alarming (though not surprising). Most alarming is the size of BSC's likely future requirements.
2. During the steel strike, Ministers said many times that there would be no increase in the £450m cash limit for BSC in 1980/81. In June, Keith told Parliament that it would be necessary to make some increase but he conveyed the impression that he was insisting that every effort should be made to minimise the extra funds needed. It now seems likely that an extra £600m will be required this year alone. Although no proper forecasts are yet available from BSC, the rough estimate by officials at Annex 2 of E(80)102 is of a further cash requirement from 1981/82 to 1983/84 of £1,400m. In short, if a great many things go right - and the long history of BSC is that forecasts have always turned out to be much too optimistic - it will cost the taxpayer another £2bn to keep the show on the road.
3. Against that background, we think that liquidation should be considered more seriously than in paragraph 13 of the paper. <sup>behind</sup> The last sentence of paragraph 13: ". . . I think (McGregor) must be given a proper opportunity to show . . ." is the all too familiar rationalisation for facing reality . . . but not yet, O Lord. If liquidation could be achieved for £1bn, it would be much cheaper than continued support. It is quite possible that many of the objectives in McGregor's forward plans could be achieved through liquidation, for example:
  - (a) rapid closure of uneconomic plant;
  - (b) effective decentralisation;
  - (c) more rapid demanning, especially among the white collar labour force;
  - (d) a more rapid change in work force attitudes.



4. If we can achieve our objectives more quickly, at less cost and eliminate the threat of further calls on the taxpayer through liquidation, it becomes a very attractive alternative.
5. Of course, the wider political impact of an event like liquidation would be very significant. We believe it would be possible to turn the event to our political advantage. It could be explained that bringing BSC's unhappy life to an end would relieve the taxpayer of a very heavy burden - helping to contain the PSBR, avoid tax increases, and get on with reducing interest rates. By contrast, maintaining BSC is an integral part of the process by which the private sector is being squeezed for the benefit of the public sector.
6. Obviously, there is some slight embarrassment after hiring McGregor if he is himself strongly opposed to liquidation. It is not clear from the paper whether this is the case. But it would be quite wrong for this to be the decisive factor.
7. Although there would be a predictable chorus of opposition to such a radical move, we could also count on its being widely welcomed by private sector steel manufacturers and by some sections of the press. In contrast to the position at BL, the press could draw the lesson that last winter's steel strike was the straw that finally broke the BSC's back. (In the case of BL, the situation is very different: union behaviour really has improved since the last decision to extend further state support.) Furthermore, the period of the steel strike demonstrated to the press and public that it was possible to live without a nationalised steel industry.
8. The liquidation of one major nationalised industry would help to make it absolutely clear to managers and workers in the remaining nationalised industries - and even in the private sector - that the Government was determined to stop shielding large groups of employees from the consequences of the market place and, in this case, their own actions. Doing it is very much more effective than saying it.
9. We are not at this stage saying that the attractions of liquidation outweigh all the drawbacks. But they are sufficient to merit a much closer and more sympathetic look at the cost and consequences of early liquidation.