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Ref. A09983

PRIME MINISTER

Pay, Prices and Efficiency in the Nationalised Industries

(E(79) 16)

BACKGROUND

This paper follows a remit from the Committee at its meeting on 2nd June. You gave the remit to the Secretary of State for Industry, but much of the work at official level has been done under Treasury auspices. The line proposed is consistent with that in the papers by the Chancellor and by the CPRS (E(79) 5 and 12) considered on 9th July. It is also consistent with the general line of Nationalised Industry Policy which is emerging in the separate discussions under Sir Keith Joseph. The Secretary of State for Industry's covering paper makes some clear recommendations, and was briefly considered at E on 9th July, but without any conclusion. The Committee then asked for some examples of how the Chancellor's 'Option A' would look in practice. Unfortunately the new paper (E(79) 23 - see separate brief) does not deal with the nationalised industries at all.

2. Given that Ministers have broadly accepted the general line on cash limits (Option A) set out by the Chancellor, they will be able to accept these recommendations in principle. But they will have understandable reservations about the effect on employment in particular areas, about essential supplies, about prices (particularly sensitive in the next year) and, on the part of the Treasury, about the PSBR implications. Ministers will therefore be justified in seeking to see how these proposals will work out in practice. You will, I think, want to commission a fairly detailed paper about this for consideration immediately after the Recess.

HANDLING

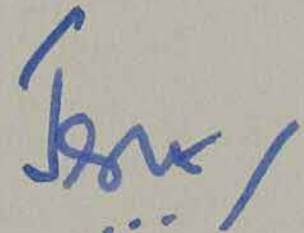
3. It follows that you may not be able to take final conclusions on this paper at the present meeting. You might therefore start by making this clear and then asking the Secretary of State for Industry to introduce his paper briefly, calling for comments from the Chancellor of the Exchequer and the Secretary of State for Employment (and, if you wish, Sir Kenneth Berrill). You might try to steer the

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Committee away from involvement in specific cases or in the detailed proposals - there is not sufficient time. The Committee might be guided to note that there is an inter-play between pay rates, prices, investment, manning, and external finance (mainly the PSBR). While the paper argues against the establishment of a uniform pay norm, it also points to the need for consistency in applying the policy it suggests. (For example, it would be wrong to impose a manpower squeeze in one loss making industry, but not in another, without adequate justification: the unions will seize on such differences). Ministers therefore need to look at the consequences of this policy as it will apply to the leading industries, and to do so comprehensively not case by case.

CONCLUSIONS

4. If this analysis is adopted, then the conclusion of this item might be: To invite the Chancellor of the Exchequer rather than the Secretary of State for Industry, this time to arrange for a further paper to be prepared, showing the consequences for each main industry in the 1979-80 pay round and the 1980-81 financial year, of the policies suggested here (taking note also of the suggestions from the Chancellor of the Exchequer and the CPRS in their earlier general papers (E(79) 5 and 6 considered on 1st June). You will also want to decide whether this new paper should be considered before or immediately after the Recess. Given the press of business there is a lot to be said for the latter if circumstances permit.


(John Hunt)

16th July, 1979

A09928

PRIME MINISTERPay, Prices and Efficiency in the National Industries(E(79) 16)

Background

1. This paper follows a remit from the Committee at its meeting on 2 June. You gave the remit to the Secretary of State for Industry, but much of the work at official level has been done under Treasury auspices. The paper is consistent with the line proposed in the papers considered under Item 1 (by the Chancellor and by the CPRS). It is also consistent with the general line of Nationalised Industry Policy which is emerging in the separate discussions under Sir Keith Joseph. His covering paper makes some clear recommendations. A lot will depend on the general attitude to cash limits which the Committee may have adopted following discussion of the Chancellor's paper E(79) 15. But they will in any case have understandable reservations about the effect on employment in particular areas, about essential supplies, about prices (particularly sensitive in the next year) and, on the part of the Treasury, about the PSBR implications. Ministers will therefore wish to consider how these proposals will work out in practice.

HANDLING

2. It follows that you may not wish to seek final conclusions on this paper at the present meeting. (I have suggested in my main brief on Item 1 you should seek to commission a further paper on the nationalised industry problem for a later meeting.) You might therefore start by making it clear that this is only a first bite. You could then ask the Secretary of State for Industry to introduce his paper briefly, calling for comments from the Chancellor of the Exchequer and the Employment Secretary (and, if you wish, Sir Kenneth Berrill). You might try to steer the Committee away from involvement in specific cases or in the detailed proposals - there is not sufficient time. The Committee might be guided to note that there is an inter-play between pay rates, prices, investment, manning, and external finance (mainly the PSBR). While the paper argues against the establishment of a uniform pay norm, it also points to the need for consistency in applying the policy it suggests. (For example, it would be wrong to impose a manpower squeeze in one loss making industry, but not in another, without adequate justification: the unions will seize on such differences). Ministers therefore need to look at the consequences of this policy as it will apply to the leading industries, and to do so comprehensively rather than case by case.

CONCLUSIONS

3. If this analysis is adopted, then the conclusion of this item might be:

- To invite the Chancellor of the Exchequer [rather than the Secretary of State for Industry, this time] to arrange for a further paper to be prepared, showing the likely consequences for each main industry in the 1970-80 pay round and the 1980-81 financial year, of the policies suggested here (taking note also of the suggestions from the Chancellor of the Exchequer and the CPRS in their papers at Item 1.) [You will also want to give guidance on whether the resulting paper should be considered before or immediately after the Recess].

J.H.
JOHN HUNT

6 July 1979