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E(80) 43rd Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 4 DECEMBER 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Secretary of State for Defence
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Items 2 and 3)

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland
(Item 3)

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The Rt Hon Patrick Jenkin MP
Secretary of State for Social
Services
(Item 1)

The Rt Hon Angus Maude MP
Paymaster General
(Item 1)

The Hon Douglas Hurd MP
Minister of State, Foreign and
Commonwealth Office
(Item 3)

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science
(Item 1)

The Rt Hon Sir Michael Havers QC
Attorney General
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Items 2 and 3)
Mr G D Miles (Item 1)

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1. ARBITRATION ON PUBLIC SERVICES PAY
Previous reference: E(80) 37th Meeting, Item 2

The Committee considered a Memorandum by the Secretary of State for Employment (E(80) 131) setting out the areas of the public services where present arrangements provided for unilateral access to arbitration on pay, and making proposals as to where, and how, changes in such arrangements should be made.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Committee had previously concluded that a unilateral right of access to arbitration was in principle undesirable, since it placed a weapon in the hands of the unions which they would seek to exploit whenever it was to their advantage to do so. The paper summarised the existing arrangements where a unilateral right of arbitration existed and made proposals for dealing with each case.

In discussion of the individual cases the following main points were made -

- a. Teachers in England and Wales

The Secretary of State for Education and Science intended to make radical amendments to the arrangements for settling the pay and conditions of service of teachers, and would be consulting the local authority employers and teachers about this. It would however require legislation to amend the Remuneration of Teachers Act 1965, and this legislation did not yet have a place in the programme. It was clear therefore that legislative change could not affect the arrangements for the pay settlements in 1981. The right of unilateral access to arbitration could be withdrawn without legislation, and the Secretary of State had indicated to the local authority employers that he would be prepared to take that step. There were some signs that the employers had changed their earlier view, and would now not favour action in advance of the wider review of teachers' pay. He awaited their formal response. It would be difficult to take unilateral action in England which was not mirrored in Scotland.

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b. Teachers in Scotland

Legislation was already envisaged in the current Session to alter the pay arrangements for Scottish teachers. Once the legislation was enacted, the Secretary of State for Scotland would be able to make regulations to prescribe the right of access to arbitration, and this could prevent unilateral access. The same step could be taken administratively, in advance of the new legislation, so as to affect the pay settlements in 1981, but this might increase the controversy associated with the passage of the legislation. There seemed a reasonable chance that Scottish teachers would not use a unilateral right of access to arbitration in 1981, since they were dissatisfied by the results of arbitration in 1980. The fact that legislation was already in progress could provide a distinction between Scotland on the one hand and England and Wales on the other, if it was decided to act differently in the different countries.

c. University Teachers

The arrangements for the negotiation of university teachers' pay involved a first round of negotiations between the teachers and their employers and a second round between the two sides of the universities acting together and the Department of Education and Science (DES). The written, but non-statutory, arrangements for the final stage of negotiations provided that the university teachers and the DES could jointly agree to submit any dispute to arbitration, subject to the proviso that "Such agreement not to be unreasonably withheld". The Attorney General had advised that the arrangements must be construed as meaning that refusal by either side to concede access to arbitration would be unreasonable once it was clear that scope for further negotiation had been exhausted. It was unlikely that the Courts would accept that inability to pay was a reasonable basis for withholding agreement to arbitration. In effect therefore the arrangements provided for a defacto unilateral right of access to arbitration. If the arrangements were to be changed, the DES would either have to negotiate with the university parties for the deletion of the qualifying condition or seek to withdraw unilaterally from the agreement. It was now too late to change the arrangements before the current pay negotiations had been concluded, but a change might be possible in time to affect the next pay settlement due in 1981.

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d. Non-Industrial Civil Servants

There was in this case no unilateral right of access to arbitration, since the Government and employers could refuse arbitration on general policy grounds. The Lord President of the Council proposed that he should make it clear to the Civil Service Unions that arbitration would be refused in 1981, in any matter that might affect the overall supremacy of the cash limit, or the staging of the pay awards. He would not at this stage wish to rule out the possibility that arbitration might have some useful function in settling the detail of the distribution of payments within the overall totals agreed. The position could be made clear to the unions when the cash limit for the Civil Service was settled.

e. Police

The police were a special case, since they were the only group, other than the Armed Forces, who were unable to take any form of industrial action. The Home Secretary had power to override the conclusions of the arbitrator, if this seemed desirable, but it would be very difficult for him to reduce any award below the level of the settlement to be agreed next April for the Armed Forces.

f. Water workers and Local Authority Staff and Craftsmen

In each of these cases, action lay with the employers concerned, and the Government could merely seek to persuade them of the advantage of abandoning unilateral access to arbitration.

g. United Kingdom Atomic Energy Authority (AEA) staff

Here there had been a right of unilateral access for 26 years, without difficulty, and the staff concerned had long established links with civil service pay. Unless trouble did arise in future settlements, it might be preferable to let sleeping dogs lie.

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THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed in principle that unilateral access to arbitration was undesirable. The Secretary of State for Education and Science and the Secretary of State for Scotland should consult their respective employers' organisations for teachers, and should encourage them towards withdrawing from unilateral arbitration in time for the pay settlements in 1981, and in advance of the wider changes in teachers' pay arrangements resulting from legislation, whether current or proposed. If it proved that the employers were no longer willing to agree to the withdrawal of unilateral access to arbitration ahead of the general review of the teachers' pay arrangements, the Government would have to consider the position. The Secretary of State for Education and Science should similarly seek to withdraw the present de facto right of unilateral access to arbitration for university teachers, once the existing negotiations were complete. The Secretary of State for the Environment should encourage the water industry, and the local authority employers of staff and craftsmen to amend their arrangements for settlements in 1981. The Committee endorsed the proposed course of action by the Lord President of the Council for the Civil Service non-industrial staff. They agreed that no action need be taken about the arbitration arrangements for the Police, where present safeguards were adequate, and that action in respect of the employees of the United Kingdom need not be taken unless it appeared that the staff would seek to make unacceptable use of the existing agreement.

The Committee -

1. Invited the Secretary of State for Education and Science and the Secretary of State for Scotland to consult with the local authority employers of teachers, with a view to removing the unilateral right of access to arbitration for the 1981 pay negotiations.
2. Invited the Secretary of State for Education and Science to seek to remove the present de facto right of university teachers to unilateral access to arbitration, once the current round of pay negotiations were complete.

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3. Invited the Secretary of State for the Environment to encourage the water industry employers and the local authority employers to take steps to remove the right of unilateral access to arbitration in time for the 1981 pay negotiations.
4. Invited the Lord President of the Council to ensure that the Civil Service Staff Side were aware that arbitration would not be available in 1981 in any matter affecting the staging of awards, or the supremacy of the overall cash limit.
5. Agreed that no action was needed in respect of the arbitration arrangements applicable to the Police.
6. Agreed that no action need be taken about the arbitration arrangements applicable to the employees of the United Kingdom Atomic Energy Authority unless and until it became apparent that the staff would seek to use these arrangements in an unacceptable manner.

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2. THE STEEL INDUSTRY

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Previous Reference: E(80) 34th Meeting, Item 1

The Committee considered memoranda by the Secretary of State for Industry on the prospects for collaborative ventures between the British Steel Corporation (BSC) and private sector steel companies (E(80) 138) and covering a report by officials on the prospects for the steel industry to mid-1980s (E(80) 139).

THE SECRETARY OF STATE FOR INDUSTRY said that BSC were considering a range of possible strategies involving various degrees of reduction of capacity: one would involve further redundancies but no major closures of plant, but more radical alternatives were also under review, which would lead to major closures. The Board would discuss their corporate plan informally on the evening of 11 December and formally on 12 December, after which it was likely that the proposals in it would become publicly known. He would make recommendations in January on the Government's response to the plan, including the privatisation proposals within it. In the meantime he invited the Committee to endorse the proposals set out in his memorandum (E(80) 138) for fostering arrangements whereby BSC and the private sector pooled assets where their activities were overlapping and created one or more free-standing Companies Act companies. This would not prevent some closures in the private sector, but it would help to preserve private sector companies in the area of overlap, and would also increase private sector participation in activities currently undertaken by BSC without jeopardising the ultimate viability of the Corporation. The Government would have to inject some new capital into such companies, but they could do so via BSC, and the amounts would come from within the totals approved for BSC when the corporate plan was discussed.

In discussion there was general support for the proposals for encouraging collaborative ventures between BSC and private sector. The following were the main points made -

- a. It would be desirable to arrange the financial structure of new companies so as to avoid a majority equity ownership by BSC, but this could prove difficult to achieve, since BSC's plant was generally more modern and better than that owned by the private sector companies.

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The favourable pension arrangements for BSC employees could add to the difficulties of setting up new companies. If, however, the proposals could be successfully implemented for the steel industry, they could have wider application in other areas where public and private sector activities overlapped.

b. The general paper by officials, attached to E(80) 159, appeared to be realistic in pointing to the need for reduced capacity by the mid-1980s. The Chairman of BSC was, however, a vigorous and energetic salesman and might well take a more optimistic view of his, and the Corporation's ability to sell steel in this period.

c. There were increasing worries that closures in South Wales - in the steel and other industries - could lead to serious industrial and social unrest. It was therefore important that the announcement of decisions should be handled sensitively and premature disclosure of possibilities avoided.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the Secretary of State for Industry's proposals in E(80) 158 for fostering collaborative ventures between BSC and private sector companies where their activities were overlapping. It was important that the negotiations between BSC and the private sector should remain confidential. The outcome, and the decisions which the Government would be taking later on BSC's corporate plan, could have a major impact on a number of areas, and on South Wales in particular, and the announcement of proposals and of decisions should be handled with great care.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Endorsed the proposals in E(80) 158 for collaboration between the British Steel Corporation and private sector steel companies.

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5. LIQUID MILK PRICES

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The Committee had before them a letter of 27 November on liquid milk prices from the Minister of Agriculture, Fisheries and Food to the Prime Minister, and minutes to the Prime Minister of 1 December from the Secretary of State for Wales, 2 December from the Secretary of State for Scotland and 3 December from the Secretary of State for Employment and a letter of 3 December from the Secretary of State for Northern Ireland to the Minister of Agriculture, Fisheries and Food.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at their meeting on 6 August the Committee had approved an increase of $\frac{1}{2}$ p in the maximum retail price of liquid milk and agreed to consider a further increase later in the financial year. He now proposed an increase of $1\frac{1}{2}$ p with effect from 21 December. This would yield £45 million in the rest of the financial year 1980-81, which would be divided equally between the producers and the distributors. It was necessary to prevent a further fall in the income of the dairy trade and contraction of the industry, and to recoup the costs of distributors. The Binder Hamlyn report on the liquid milk costings system had proposed a number of changes which were now under discussion with the trade. He would put forward proposals in January in the light of these discussions. The proposed increase would add 0.15 per cent to the Retail Price Index. He recommended that the price increase should come into effect on 21 December; this would add 0.15 per cent to the Retail Price Index for January, the increase in which on other grounds was expected to be relatively small. Experience showed that an increase before Christmas enabled the trade to retain more of their market than if it took place in January.

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In discussion the following points were made -

a. Although the increase would have to be announced in December, it would be much better for it to take place in January. If it took place before Christmas, it would hit the housewife at a time when her outgoings were particularly heavy.

b. After this increase the maximum price of liquid milk would be 18 $\frac{1}{2}$ p a pint, compared with 17 $\frac{1}{2}$ p when the Government took office. Over this period the increases had been split broadly equally between producers and distributors, although in recent months they had been in favour of the latter. The Binder Hamlyn report suggested that the distributors were getting too much. This would need to be considered in good time before the Committee were called on to decide the next increase in 1981.

c. The increase would widen the margin between liquid milk and milk for manufacture. It could encourage Community producers to sell 'long life' milk in British supermarkets. On the other hand, even after the proposed increase, the price of fresh United Kingdom liquid milk would be competitive with continental long life milk.

d. The Director General of Fair Trading was considering a reference to the Monopolies and Mergers Commission on milk distribution. If he decided to go ahead, the Government would have to decide whether or not to veto the reference.

THE PRIME MINISTER, summing up the discussion, said that, although the proposal for a further increase in the liquid milk prices had not been adequately discussed among the Departments concerned before being brought forward to Ministers, the Committee were prepared to agree that the maximum retail price of milk should be increased by 1 $\frac{1}{2}$ p on Sunday 4 January. They noted that this decision would be announced before Christmas, and that the proceeds of the increase would be divided equally between the producers and the distributors. The Committee had considerable doubts over the need for continuing increases to help the distributors. The Minister of Agriculture, Fisheries and Food should arrange for an interdepartmental review of the Binder Hamlyn report

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on the liquid milk costing system, and he should circulate this, to the Committee together with his recommendations, by the end of January. This review should take account of the proposal by the Secretary of State for Northern Ireland, in his letter of 3 December, that the Government should commence a phased withdrawal from involvement in control of milk prices by ceasing to control the wholesale price. The Minister of Agriculture, Fisheries and Food should ensure that in future proposals for increases in liquid milk prices were discussed interdepartmentally in good time before being brought to the Committee so that the views of other Departments could be reflected in his recommendations.

The Committee -

1. Agreed that the maximum retail price of liquid milk should be increased by 1 $\frac{1}{2}$ p with effect from Sunday 4 January.

2. Invited the Minister of Agriculture, Fisheries and Food, in consultation with the relevant Ministers, to arrange for an interdepartmental review of the recommendations in the Binder Hamlyn report on the milk costing system, and of the Secretary of State for Northern Ireland's proposal in his letter of 3 December for ceasing to control wholesale prices, and to make recommendations to the Committee by the end of January 1981.

Cabinet Office

5 December 1980

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