CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 20 SEPTEMBER 1979 at 10.30 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 James Prior MP
Secretary of State for Employment

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

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science

The Rt Hon Norman Fowler MP
Minister of Transport

The Hon Nicholas Ridley MP
Minister of State, Foreign
and Commonwealth Office

Mr Paul Channon MP
Minister of State
Civil Service Department

The Rt Hon Tom King MP
Minister of State
Department of the Environment
(Minister for Local Government and Environmental Services)

The Rt Hon Sally Oppenheim MP
Minister of State
Department of Trade
(Minister for Consumer Affairs)

Mr John Moore MP
Parliamentary Under-Secretary of State, Department of Energy

Sir Kenneth Berrill
Head of the Central Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr P Le Cheminant
Mr P Mountfield

CONTENTS

1. 1980-81 CASH LIMITS AND PAY

Previous Reference: E(79) 5th Meeting, Item 1

The Committee considered a memorandum by the Chancellor of the Exchequer (E(79)34) about ways of setting cash limits for the financial year 1980-81 to cover pay in the public services including the National Health Service (NHS) and Local Authorities. They also had before them a further paper by the Chancellor of the Exchequer, E(79) 39, on 'Handling Public Sector Pay in the Context of Cash Limits'.

THE CHANCELLOR OF THE EXCHEQUER said that the Committee had already agreed to establish cash limits for 1980-81 in advance of the relevant pay negotiations so as to impose discipline upon pay negotiators, but in a flexible and realistic manner which took full account of current conditions. They had rejected the alternative of cash limits set after the event which merely ratified settlements reached with the unions. His paper demonstrated how the approved approach would apply to Central Government, to the NHS and to Local Authorities. It proposed that the first limit to be set should apply to local authorities, and might take the form of a sliding scale of Rate Support Grant (RSG) which would penalise those authorities which raised their rates by excessive amounts. The precise formula was a matter for further discussion. The paper also suggested that cash limits should be set for the NHS in the New Year, and that there should be a single global cash limit for the whole of the Civil Service, determined in March in the light of Pay Research evidence, before final decisions were reached on pay increases for a non-industrial civil service. The paper also suggested that if this general approach were adopted, it would be impossible to prevent the pay assumptions implicit in these cash limits becoming public knowledge.

In discussion, there was general agreement that cash limits should be used in the flexible way proposed by the Chancellor to exert pressure on wage negotiations. It must be made clear to the negotiators that excessive pay settlements would lead to reductions in service and loss of jobs. It would be particularly important, for political reasons, to find ways of preventing Local Authorities from passing on excessive wage settlements in rate demands. To do this, it would be necessary for the Chancellor's proposals to apply to individual authorities, and not to the overall RSG settlement. But there were several reasons, unrelated to pay, why particular authorities might need large rate increases in 1980-81. Some authorities might deliberately have held back rate increases in 1979-80 and it would be unfair to penalise them for doing so. The Chancellor's proposals would also penalise twice over those authorities who might lose RSG as a result of likely changes in the distribution formula in 1980-81. The scheme in its present form might have perverse effects. It could even encourage Local Authority Treasurers to insure against the costs of excessive wage demands and of possible loss of Support Grant by budgeting for unnecessarily high rate increases in 1980-81. For these reasons it might be better to rely on the new arrangements for unitary grant, already being considered by Ministers, which would be based entirely on the needs of local authorities without regard to their resources. Although the legislation would not be enacted until the spring, it would be possible to announce in advance that the Rate Support Grant Increase Order in November 1980 would embody retrospectively changes which would have the desired effect on wage negotiations at the end of 1979. A further possibility would be to impose individual cash limits on the overall expenditure of particular authorities. All these measures involved a degree of intervention with local government which might seem contrary to the Government's policy of giving the authorities greater freedom. But it was arguable that the greater freedom now being given to local authorities justified an overall control on the level of their expenditure and rate demands. Whichever route was chosen, it was necessary to find a way of communicating the financial discipline to those responsible for wage negotiations. Some Local Authorities and their Associations were already seeking ways of improving their control over the Local Authority Conditions of Service Advisory Board (LACSAB) which would have this effect. It was also necessary to set cash limits which made realistic allowance for expected wage increases, and would not automatically produce further and undesired reductions in the volume of local government expenditure.

In discussion of cash limits for the NHS it was suggested that timing was crucial. A single cash limit for the whole NHS would be set in the early spring. But pay negotiations would spread over several months, beginning in December. The large group of NHS ancillaries normally followed the rates negotiated for Local Authority manual workers, and it was probably sufficient to rely on the RSG limit to put some discipline into the NHS negotiations. The cash limit for the Health Service could then be set in the light of these negotiations in a way which would apply discipline to the remaining NHS pay negotiations. But the consequences of an unrealistic estimate could be very serious, since 70 per cent or more of total NHS expenditure was on pay, with correspondingly little room for offsetting savings in other expenditure.

In discussion of Civil Service pay, there wa[illegible] on the proposal for a single global limit, at least while the [illegible] ar[illegible]ents for centralised pay bargaining in the civil service continued. It was noted that Cabinet had already commissioned a study of the scope for decentralisation of public service pay bargaining, particularly for the industrial civil service.

THE PRIME MINISTER, summing up the discussion, said that the Committee approved the main lines of the approach to pay and cash limits set out in E(79) 34, except for the proposals on the RSG. They were not satisfied that the 'sliding scale' arrangements proposed for the RSG would work fairly as between Local Authorities, or would apply sufficient discipline on pay negotiations. The Chancellor of the Exchequer should arrange for officials of the Treasury and of Departments concerned with Local Authority expenditure to prepare fresh proposals, taking account of the points made in discussion, which Ministers could consider early in October. The Chancellor of the Exchequer should also bring forward proposals for individual cash limits in the timescale proposed in paragraph 11 of E(79) 34.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer and the other Ministers concerned to proceed accordingly.

2. NATIONALISED INDUSTRIES' CASH LIMITS AND PERFORMANCE TARGETS FOR 1980-81

Previous Reference: E(79) 5th Meeting, Item 2

THE COMMITTEE considered a memorandum by the Chancellor of the Exchequer, E(79)35, covering a paper by officials on the application of cash limits to the external finance of nationalised industries in 1980-81 in ways which would exert pressure for responsible pay bargaining.

THE CHANCELLOR OF THE EXCHEQUER said that the Government's relationship with the nationalised industries was ambivalent. In principle they would prefer to stand back and behave like bankers, setting a maximum to the amount of Government finance available and leaving the industries to meet their own pay settlements consistent with this. But this left the Government with the problem of fixing the sum concerned, and making this consistent with its' overall policies. There were some industries where market forces could be left to determine the outcome. There were others, like the Railways, where the Government was the effective paymaster and could not detach itself completely from negotiations. In any case, the monopoly position of many of the industries made it important to supplement cash limits with performance targets, otherwise wage settlements would simply be passed on in prices. The officials' note attached to his paper proposed a fairly crude approach, under which cash limits would include provision for wage increases somewhat less than the expected movement in retail prices, thus giving some incentive for improved efficiency. This broad rule of thumb would be applied to the individual industries in a way which took account of their differing circumstances. Even then, it would not be possible for the Government to disengage completely, because of the repercussive effect of wage negotiations in one industry as those in others.

In discussion, there was broad support for the general principles embodied in the Chancellor's paper. It was however argued that the Government should avoid interference in individual wage negotiations, relying so far as possible on general financial disciplines.

It was also argued that more work must be done quickly on performance targets for individual industries, to reinforce the discipline of cash limits and avoid industries exploiting their monopoly positions. Further references to Monopolies and Mergers Commission would help in the search for greater efficiency.

THE PRIME MINISTER, summing up the discussion, said that the Committee approved the proposals set out in E(79)35. In particular they agreed that sponsoring Departments and Treasury should now begin discussions with the industries on the makeup of the 1980-81 cash limits on the lines proposed in the paper; invited the Chancellor of the Exchequer to bring forward proposals for cash limits for individual nationalised industries in October; agreed that the Nationalised Industry Chairman should be asked to ensure that sponsoring Departments were consulted before commitments were entered into in any major pay negotiations; and noted that improvements might be needed, with the support of ~~spare~~ SPONSOR Ministers, in the arrangements for maintaining the performance of the industries in relation to cash limits and otherwise. In addition the committee would need to pay special attention to the difficult problems of the coal industry, and would return to these at the next meeting on the basis of a paper about to be circulated by the Secretary of State for Energy.

The Committee -

Took note with approval of the Prime Minister's summing up of their discussion, and invited the Chancellor of the Exchequer and the other Ministers concerned to proceed accordingly.

3. CURRENT INDUSTRIAL DISPUTES

The Committee's discussion and the conclusions reached are recorded separately.

Cabinet Office

21 September 1979

COPY NO 18

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(79) 8th MEETING, MINUTE 3
THURSDAY 20 SEPTEMBER 1979 AT 10.30 am

CONFIDENTIAL

3. CURRENT INDUSTRIAL DISPUTES

THE PRIME MINISTER said that recent developments in Civil Service pay negotiations had revealed a weakness in managerial response to selective industrial action. Under the law as it now stood, it appeared impossible for Departments to lay-off non-industrial staff who were unable to work as a result of selective action undertaken by a small number of key people. This made it impossible to put pressure on unions and strikers through the majority of their members. It seemed probable that, depending on the terms of contracts of employment, there were similar difficulties in many private sector employments. She had already asked for the position as it affected the civil service to be investigated urgently.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the current dispute over the National Engineering Agreement was developing in a very dangerous way and no early solution was in sight. Rolls Royce, with the support of other members of the Engineering Employers Federation, had taken the extreme step of laying off employees involved in the recent two-day a week strikes. There was a chance that other major companies would follow their lead and that, despite a period of disruption, this would prove to be the correct solution in the long run.

In discussion, there was considerable criticism of the reported action of the Department of Health and Social Security, in making special arrangements for the payment of supplementary benefit to the families of the strikers locked-out by Rolls Royce. It was argued strongly that the Department was wrong to anticipate a long strike in this way, or to make special arrangements to help those affected. Against this, it was pointed out that the present law had to be administered fairly, and that the families of strikers were entitled to supplementary benefit once they had exhausted their immediate resources. The object of the special arrangements made was to ensure that strikers and their families did not crowd out other and more deserving cases at local social security offices. It was also suggested that polls had shown that the strike action did not command general support among the workforce, who were being intimidated by the threat of losing union membership. The Government's proposal for dealing with the closed shop would help to solve this problem in the longer term but meanwhile there was a case for challenging the union to say whether they intended to penalise any members who refused to take part in strike action.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee invited the Secretary of State for Social Services to review the special arrangements being made for the families of strikers at Rolls Royce and in other locations. The Secretary of State for Employment should consider, in consultation with the Attorney General, what might be said publicly to reassure those members of the workforce at Rolls Royce who wished to continue working without the risk of losing their union membership. The Committee noted that a new Ministerial Sub-Committee had been established to consider the threat of industrial action in the civil service, including the state of physical preparedness in Departments. The Secretary of State for Employment, in consultation with the Secretary of State for Social Services, should bring forward urgently his paper on Supplementary Benefits for Strikers.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to proceed accordingly.

Cabinet Office

21 September 1979