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E(80) 1st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 15 JANUARY 1980 at 10.00 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 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 Lord Hailsham
Lord Chancellor
(Items 1 and 2)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Items 1-4)

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster
(Items 1 and 2)

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Items 1 and 2)

i

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7

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Sir Ian Percival QC MP
Solicitor General
(Items 1 and 2)

Mr Paul Channon MP
Minister of State
Civil Service Department
(Items 3 and 5)

Baroness Young
Minister of State
Department of Education and Science
(Item 3)

Sir Kenneth Berrill
Central Policy Review Staff

SECRETARIAT

Mr P Le Cheminant
Mr P Mountfield
Mr A S D Whybrow

CONTENTS

Item No	Subject	Page
1	STEEL STRIKE	1
2	TRADE UNION IMMUNITIES	3
3	STRATEGY PROPOSALS	6
4	PROFIT SHARING AND SHARE OPTIONS	8
5	INFLATION-PROOFED PENSIONS	10

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1. STEEL STRIKE

Previous Reference: E(79) 20th Meeting, Item 2

The Committee resumed its discussion of industrial action in the British Steel Corporation (BSC).

THE SECRETARY OF STATE FOR INDUSTRY said that there were no major new developments to report. Although his information was not complete, it appeared that steel supplies from the private sector and from stockholders were generally being maintained. On average there appeared to be about four weeks stock in hand, although there might be some exceptions.

THE SECRETARY OF STATE FOR EMPLOYMENT said the Advisory Conciliation and Arbitration Service (ACAS) was continuing its talks with the parties involved. The talks with the Iron and Steel Trades Confederation (ISTC) had been friendly and conciliatory. There was little difference between the parties on the size of the pay increase at issue (and the reported claim for 20 per cent could be discounted). But there were still considerable differences about the means, including productivity agreement, and de-manning, which would be needed to finance an agreement.

THE HOME SECRETARY said that reports from the Chief Constables indicated that picketing of private steel producers and stockholders was at a relatively low level, and that supplies from these sources were moving without serious interruption.

In discussion, a number of points were made -

- a. There were signs that the prospects for resumed talks would be best over the following week-end. By then, the pressures on the ISTC, largely without support from the other unions concerned, would be at their height. But the BSC position, while its customers continued to hold reasonable stocks, would still be strong. The longer the strike continued, the higher might be the eventual cost and the greater the pressure on BSC's cash limits.

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b. ACAS was statutorily empowered to offer mediation if both parties agreed, but had no power to insist on it. Nevertheless a mediator might be able to find some way of reconciling the interests of the different parties, within the financial limits laid down by Government. A solution reached in this way was unlikely to be tidy.

c. The Government should not be seen to give way in the face of industrial action and should not attempt to impose mediation. It must be left to the parties to negotiate a solution within the financial limits laid down by the Government. A face-saving solution could be costly to the Government in the long run.

d. It was important to maintain the limit of £450 million on the external finance available to the BSC, and the requirement that it should break even on current account in the financial year 1980-81. But there might be scope for mediation within those limits. BSC was pledged to find any additional cash needed for pay increases, by improved productivity, by disposal of assets or by redundancies. This left the Corporation with some room for manoeuvre.

THE PRIME MINISTER, summing up the discussion, said that the Committee noted existing statutory provision for mediation to be offered by ACAS where both parties agreed. The time for such an approach might be rapidly approaching. It was not for the Government to intervene in the dispute, but it should not attempt to prevent ACAS exercising its statutory responsibilities.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed to resume its discussion of the steel dispute, as necessary, at a future meeting.

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2. TRADE UNION IMMUNITIES

Previous Reference: E(79) 15th Meeting

The Committee had before them a Memorandum (E(80) 1) by the Secretary of State for Employment about possible amendments to the Employment Bill, currently before the House of Commons, to change the law about picketing and trade union immunities in the light of the House of Lords decision in the case of McShane versus Express Newspapers. They also had before them a letter dated 11 January from the Secretary of State for Trade to the Secretary of State for Employment commenting on the proposals particularly in the light of the Nawala Judgment, and a minute dated 14 January from the Secretary of State for Employment to the Prime Minister about the effects of his proposals in the circumstances of the current steel dispute.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had made it clear at Second Reading of the Employment Bill that the Government would wish to introduce further amendments, as necessary, in the light of the expected House of Lords Judgment in the McShane case. This Judgment had placed an unacceptably-wide interpretation on the present law on picketing and trade union immunities. The question before the Committee now was the extent to which the Government should attempt to restrict and redefine such immunities. The Bill already contained considerable limitations on picketing, which were likely to be observed in practice by the trade unions once the Bill became law. He therefore proposed that new provisions should be confined to the immunity of individuals, and should not extend to the present immunity of trade unions as such. He did not propose to deal in the same Bill with the problems raised by another House of Lords Judgment, in the case of NWL Limited versus Nelson and Wood (the "Nawala" case) although further action might be necessary later.

In discussion, the following main points were made -

- a. The House of Lords Judgment on McShane had left the law in so unsatisfactory a state that it was not enough simply to revert to the intention of the 1974 Act. The Committee should consider afresh what limits it wished to place on trade union immunity and on the right of picketing.

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b. The Bill would operate by giving employers the right to seek injunctions forbidding picketing or other industrial action beyond the limits laid down in the Bill. The question was whether such action should lie against individuals, or against the trade unions to which they belonged. An employer would obtain the speediest redress by taking action against an individual. Seeking damages from a trade union after the event was much less effective. To take action against individuals required that pickets should be identified, but this posed no serious problem. In practice the sanction would lie indirectly against the unions as well because they usually met the costs of their members and officials in cases arising out of official disputes. This would give the unions an incentive to see that injunctions were obeyed. It was not possible to exclude the risk of deliberate martyrdom by politically-motivated individuals. But a modification of individual immunity under Section 13 of the Trade Union and Labour Relations Act (as amended) was the best approach. There would be disproportionate opposition to any attempt to put trade union funds directly at risk in the present Bill.

c. It was proposed to limit immunity to individuals engaged in industrial action directed at employers in dispute or at their first supplier, customer or supplier of services. This proposal derived from one made by the Confederation of British Industry (CBI) who did not think it would be wise to attempt any further restriction. However, any implied right of industrial action extending beyond the parties to a dispute put a very strong weapon in the hands of the unions. It might be desirable eventually to remove this right. It was however noted that the immunity extended only to "blacking" and that other parts of the Bill restricted picketing, except at the premises of parties directly engaged in the dispute.

d. The McShane Judgment had substituted a subjective test (the union's assessment of whether action was in furtherance of an industrial dispute) for the objective test which had previously been applied by the Courts. An alternative approach to that proposed by the Secretary of State for Employment would therefore be to restore the objective test

4

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for example by confining immunity to action which was reasonably calculated to further a trade dispute. However this approach had been considered, and rejected as impracticable, during the preparation of the Bill.

e. Ministers would have preferred to impose still further restrictions on trade union immunities. But it was a matter of judgment how much to include in the present Bill. Any changes going beyond those foreshadowed at Second Reading would require the Bill to go back to the floor of the House, and would put the whole timetable at risk. Moreover they would ensure the opposition of the trade union movement to a Bill which might otherwise be enacted without too much difficulty.

f. The Nawala case posed particular problems which it might be necessary to pursue later. On the one hand, it was undesirable that trade unions should be able to prevent the employment by a British shipping company of overseas seamen in British registered ships. On the other, it was important to leave British trade unions some protection against the loss of their jobs in such cases. The Secretary of State for Employment, in consultation with the Secretary of State for Trade, would give further consideration to these problems.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed on the need to restrict trade union immunities in the light of the McShane Judgment. While in principle the Committee would have preferred a more radical approach, they agreed that for tactical and Parliamentary reasons it was best to proceed as proposed by the Secretary of State for Employment.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals for amendments to the Employment Bill set out in E(80) 1.
3. Invited the Secretary of State for Employment to introduce such amendments at Committee Stage in the House of Commons.

5

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10

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3. STRATEGY PROPOSALS

(Previous References: E(79) 6th Meeting, Item 4, and 15th Meeting, Item 2).
The Committee considered a memorandum by the Chancellor of the Exchequer (E(79)84) containing progress reports on all the strategy items and inviting decisions on a number of non-priority items.

THE CHANCELLOR OF THE EXCHEQUER said that the distinction between priority and non-priority items had been based primarily on the speed with which results might be expected. It did not imply that the non-priority items were less important. The Ministerial Steering Group (MISC 14) had identified seven issues among the non-priority items on which they thought attention should be concentrated. These were: education, training and industrial needs; incentives to work; redundancy payments; financial management of companies; small firms; public purchasing policy; and collaboration between public and private sectors on exports. He invited the Committee to take note of the work in progress on these and the remaining non-priority items, and to authorise further work as indicated in his memorandum.

In discussion, the following main points were made -

- a. The subject of education, training and industry was of great importance. Work was in hand on considering the Finniston Report on the engineering profession. The Manpower Services Commission were reviewing the Industrial Training Board System, and their report, together with work in progress in the education field, would provide a basis for the Ministerial decisions during the summer. The Central Policy Review Staff were about to submit a report on education and training, which should be considered by MISC 14, plus the Secretaries of State for Employment, Scotland, and Education and Science in the first instance.
- b. MISC 14 had not selected the question of removing obstacles to demergers for special attention, but it was an important subject on which the Chancellor of the Exchequer should take action, preferably in the 1980 Finance Bill, despite the known objections of the Inland Revenue to the possible loss of capital gains tax.

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THE PRIME MINISTER, summing up the discussion, said that the Committee took note of the work in progress. It would be important not to add too much to this, lest the additions should become counter-productive. Subject to that, however, the Committee endorsed the proposals for further work in E(79)84.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited those concerned, to proceed accordingly.

7
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4. PROFIT SHARING AND SHARE OPTIONS

The Committee considered a memorandum by the Chancellor of the Exchequer (E(79) 76) covering a report by officials and recommending an order of priority for possible actions to encourage wider share ownership by employees.

THE CHANCELLOR OF THE EXCHEQUER said that he recommended taking three actions, in the following order of priority. Firstly, the 1978 legislation about profit sharing schemes should be made more generous by the changes suggested in his paper. Secondly, the share option provisions related to Save As You Earn, introduced in 1973 and cancelled in 1974 should be reintroduced. Thirdly, the 1978 legislation should be extended to cover share participation schemes, so that an employee purchasing shares in his company would receive income tax relief on the value of his purchase. These actions would cost £100 million - £300 million a year each, so there might not be room for any of them in the next Budget. The third in particular was likely to be some way off, and could be further considered in the context of the Government's studies of wider share ownership generally, not only by employees. The report by officials recommended against the reintroduction of the 1972 "Top Hat" share option arrangements which had been cancelled in 1974. He would himself give this action higher priority than officials had done, but it would be controversial, especially if taken on its own, and he considered that it would be better not to pursue it for the moment.

In discussion, the following main points were made -

- a. There was strong support for the reintroduction of a share option scheme on the lines of the 1972 legislation. This could provide a powerful incentive to senior management, and help to identify their interests with those of the company. The cost would fall on the shareholders rather than the Exchequer, and if shareholders wished to benefit managers at their own expense there was no reason for a Conservative Government to stop them. It might be desirable to extend the scheme to cover all employees.
- b. Employees often did not realise the extent to which they were already the owners of their firms, eg through pension funds. It was for the institutions to get this message across, and the Chancellor of the Exchequer would be raising this subject with them in the near future.

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c. Employees of British Airways and British Aerospace had welcomed the prospect, offered by denationalisation, of being able to buy shares in their companies, and an announcement of improvements to the 1978 scheme would ease the passage of the relevant legislation. But it would not be possible to make an announcement immediately.

THE PRIME MINISTER, summing up the discussion, said that the Committee broadly endorsed the Chancellor of the Exchequer's proposed order of priority for the three actions he had proposed in his paper, but hoped that he would also give favourable consideration to the reintroduction of a share option scheme on the lines of the 1972 scheme, though possibly covering more employees than that scheme had done. The Committee recognised that final decisions, including decisions on timing, would be for the Chancellor to take in the light of his overall budget judgment.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to be guided accordingly.

5. INFLATION-PROOFED PENSIONS

The Committee considered a minute of 10 January from the Chancellor of the Exchequer to the Prime Minister. Their discussion and conclusions reached are recorded separately.

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15 January 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 1st Meeting Minutes, Item 5
TUESDAY 15 JANUARY 1980 at 10.00 am

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INFLATION-PROOFED PENSIONS

The Committee had before them a minute from the Chancellor of the Exchequer to the Prime Minister dated 10 January, proposing the establishment of a group of independent "wise men" to advise the Government on the deduction which might be made from public sector pay to allow for the value of index-linked pensions. They also had before them minutes dated 11 January from the Minister of State, Civil Service Department and 14 January from the Secretary of State for Employment, on the same subject.

THE CHANCELLOR OF THE EXCHEQUER said that the Committee had already agreed in principle to seek advice from an independent body on the value of this adjustment. They had concluded that the Standing Commission on Pay Comparability should not be asked to do the job, and had considered asking for advice from the Pay Research Unit Board (PRUB). However, it was now clear from discussions with the Civil Service unions that there was no prospect of agreement on a reference to the PRUB. He therefore proposed that a small group, of three or perhaps five independent outside advisers, should be created to make an urgent report on this subject, in time to influence the outcome of the current round of public service pay negotiations.

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THE PRIME MINISTER, summing up a brief discussion, said that the Committee needed time for reflection before coming to final decisions. The Chancellor of the Exchequer should therefore further refine his proposals in the light of the discussion and bring them, together with draft terms of reference for the proposed enquiry, to the Committee for further consideration at an early meeting.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to further refine his proposals in the light of the discussion and recirculate them, together with draft terms of reference for the proposed enquiry, for consideration at an early meeting of the Committee.

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3
5
7
9
11
13
15
17
19
1