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LEADER'S CONSULTATIVE COMMITTEE

Minutes of the 98th Meeting held at 5.00 p.m. on Monday, 16th February 1976, in the Leader's Room at the House of Commons

Present: Mrs. Thatcher (in the Chair)

Mr. Whitelaw, Sir Keith Joseph
Mr. Maudling, Sir Geoffrey Howe
Mr. Prior, Mr. Pym, Mr. Gilmour
Mr. Jenkin, Mr. Peyton
Mr. Raison, Mr. Maude
Mr. Buchanan-Smith, Mr. Edwards
Mrs. Oppenheim, Mr. Biffen
Lord Thorneycroft

Mr. Atkins

In attendance: Mr. Higgins, Mr. Butler, Mr. Stanley
Mr. Patten, Mr. Ridley, Mr. Nicholson

Apologies: Lord Carrington, Lord Hailsham
Mr. St. John-Stevas, Mr. Heseltine
Mr. Neave

1. The Economic Prospect and the Party's Political Position

The discussion on the paper by Sir Geoffrey Howe (LCC/76/99) was continued, with special reference to page 4 para (i) on "Incomes Policy". Sir Geoffrey Howe said that the Party accepted the difficulties involved in having any agency for the long term oversight of pay. We should support sensible collective bargaining and avoid advocating controls over details, while pressing for the progressive restoration of differentials. We needed an incomes policy of a sort in the public sector enforced through cash limits. Price restraint had to be greatly reduced if there was to be any prospect for improving investment.

Perhaps we could learn from the methods used in Germany for involving trade union leaders in discussing the prospects for the economy and deciding how the fruits of expansion were to be apportioned between consumption, investment, exports etc. Germany was able to keep inflation down without price control and without enforced restraint on incomes.

There was a discussion, in which the following were the main points made:

(1) There were many things wrong with the Government's present incomes restraint: the private sector had suffered and was suffering more than the public sector; the Government's various "rescue bids" were still encouraging trade union militants to behave irresponsibly; the £6 limit was inflationary in low paid sectors of employment. Above all, the country was paying a heavy political price in order to get the £6 limit accepted by the trade unions. It would be better if incomes restraint was going to break down, that it should do so during a recession rather than when the economy was recovering. Even if we decided to continue supporting incomes restraint we should attempt to make a rational case against a permanent incomes policy.

(2) There were numerous arguments in favour of continuing to support an incomes policy, or a "policy for incomes", as we might more appropriately call it. Management and the CBI were in favour of it and wanted restraint to continue since they believed it helped to curb inflation. Opinion polls over a period of time had shown considerable public support for the idea in principle, even when specific aspects were felt to be unfair. We could not support incomes policy in Government and attack it in Opposition: that simply increased public cynicism towards politicians. Above all, there was the monopoly power of certain unions, and the fact that union militants were so much more powerful than they were, for example, in Germany. We would be unwise to oppose an incomes policy until we had found a method (if there was one) of reducing the monopoly power of the unions. However much recession and high unemployment were moderating pay claims, the problem remained of what we would do when the recession came to an end. While any incomes policy tended to run into difficulties after two years, it was significant that there had been income policies of various kinds in Britain for most of the last ten years.

(3) It would be very difficult to refuse to support a reasonable successor to the £6 limit if the TUC offered one. Above all, we needed to concentrate on restraining pay increases in the public sector, after which we might expect the private sector to follow this lead. Such an approach had some success in 1970 - 1972, when the Conservative Government had halved the rate of inflation partly by taking a tough line with the public sector. However, high unemployment in the winter of 1971 - 1972 had not prevented the success of the miners' strike then.

(4) The Government were likely to run into particular difficulties because they were likely to be obliged by the economic situation to tighten their incomes restraint progressively, whereas the best approach was gradually to be able to relax the policy, paying regard to differentials, relativities, and anomalies etc.

(5) Any decision we arrived at on this subject was unlikely to affect the outcome of the Coventry by-election. We should await the Government measures in the next few months and we should avoid disputes of principle among ourselves. But we needed to have a view by early summer. This would need to relate our "policy for incomes" to our criticisms of the Government's taxation and public expenditure record, linking the three together.

Sir Geoffrey Howe summed up the discussion: on the whole, we were opposed to pay norms; we should above all give attention to the fiscal and monetary aspects of controlling inflation, and the use of cash limits; price controls ought to be reduced if profitability were to return.

The meeting closed at 6.25 p.m.

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