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NOTE OF A MEETING AT 1100 IN 10 DOWNING STREET ON MONDAY 18 JUNE 1979
TO DISCUSS JOHN HOSKYNS' PAPER ON GOVERNMENT STRATEGY

Present Prime Minister
 Home Secretary
 Secretary of State for Industry
 Secretary of State for Employment
 Secretary of State for the Environment
 Secretary of State for Trade
 Lord President
 Chancellor of the Exchequer
 Sir Kenneth Berrill
 Mr. John Hoskyns
 Mr. Clive Whitmore
 Mr. David Wolfson
 Mr. Tim Lankester

The meeting had before it John Hoskyns' paper on Government strategy which had been circulated under the Prime Minister's minute of 14 June to the Home Secretary. It was agreed that this paper provided a useful conceptual framework against which to consider the problems facing Britain over the next ten years. The paper suggested the need for a "stabilisation programme" which would last three to four years and which would provide the basis for a real revival of the economy in the middle and late 1980s. It was certainly necessary to re-establish the conditions for growth in the UK - and this meant getting rid of the cancer of inflation, creating the right macro-economic environment and the right attitudes to growth, and changing the power balance so that the trade unions were no longer able to upset the country's growth aspirations. However, "stabilisation programme" was a bad phrase which had the connotation of stagnation; and in any case it would not be acceptable to have a period of no growth lasting for as long as three to four years. A return to growth must come sooner than that, and it must be

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clear that the Government was aiming at growth: if it was thought that, for example, the Government were more interested in freedom of choice or counter-inflation for its own sake, that would be politically disastrous. It was no doubt inevitable that the economy would have to mark time for a while, while the conditions for growth were being re-established. But measures to establish these conditions and "stabilisation" would have to go hand in hand. Thus, the "stabilisation" and rebuilding policies would need to merge together.

In order to make the initial period of little or no growth more palatable, it was essential that the electorate should understand the reasons for it, and also that it should be clear in this period that the necessary measures were being undertaken. This applied in the economic sphere; but, in addition, there were other measures, for example in relation to housing and law and order, where it would be essential to show that advances were being made. Further consideration would have to be given to the terminology of the Government's economic programme: "rebuilding" or "redeveloping" might be more appropriate than "stabilisation".

As to the content of the programme, the first essential was to create the right macro-economic environment. The Budget was a first step in this direction. It was now necessary to follow through, in particular by sticking firmly to the monetary target which the Chancellor had set. Monetary discipline was the essential pre-condition for reducing inflationary expectations and bringing inflation down. Incomes policy, and a fortiori the idea of a pay freeze, should be rejected. The idea that there might be a pay freeze would create precisely the wrong expectations, it would lead to pre-emptive strikes, and it would raise the question of what would follow. It was agreed that this should

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not be pursued any further. On the other hand, it was argued that in order to reduce inflationary expectations as fast as possible, it would be worth introducing an explicit monetary contraction programme over, say, a three-year period. Only with such a medium-term programme would inflation be squeezed out of the system. Against this, it was pointed out that, while a medium-term programme was a good idea in principle, it was important to be careful on the question of timing. If the programme were too ambitious, and assuming the Government stuck to it, there was a risk that it would destroy parts of private industry before they had an opportunity to become more competitive. For the moment, we should continue to rely on 12-month targets rolled forward every six months. Whether it would be possible to extend the targets forward would depend partly on how quickly the private sector was able to improve its performance.

In further discussion, it was argued that establishing the right conditions in respect of taxation and monetary policy was not enough. If confined to that, the rebuilding process would come too slowly. It was important that specific measures should be introduced, in addition, to help the supply side to expand. These could be broadly broken down into two types of measure: first, measures designed to free industry from bureaucracy and controls; second, measures designed positively to accelerate redevelopment. Various possibilities under these two heads were mentioned:

- (i) Further help to small businesses might be brought forward for inclusion in the Finance Bill;
- (ii) Officials were looking at the Sector Working Parties' views on how industry could benefit from decontrols. It would be worth considering having a programme of decontrol as had happened in the early 1950s.
- (iii) It would be worth considering designating a Minister with special responsibility to visit the regions and to discuss with industrialists the opportunities for growth. This might be on the pattern of Lord Hailsham's responsibility for the North East in the Macmillan

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administration. The emphasis would be not just on the financial assistance which the Government could offer, but also on other ways of improving the prospects for investment and industrial change.

- (iv) In the context of the Shotton closure, it might be possible to make Shotton a special "decontrol area" - where, for example, all planning applications would be dealt with within six months. This could be a pilot scheme which, if successful, could be copied elsewhere; and in any case, it was more likely to be successful than pumping in money on orthodox lines. On the other hand, it was pointed out that legislation would probably be needed for such an approach and that work was already in hand to speed up planning applications country-wide.
- (v) It would be worth considering how the institutions could be brought to take on their proper responsibilities for their massive equity holdings in British industry with a view to ensuring that management in industry improved. Another related possibility, although it would not directly affect industry, would be to encourage the institutions to deploy their funds into redeveloping inner city areas especially into housing, and thereby reduce the role of the public sector there.
- (vi) A number of specific proposals would be coming forward shortly from the Department of Industry.

It would be useful if each of the main economic Departments would produce lists of specific proposals, and these need not be confined to their own Departmental responsibilities.

It was pointed out that the present economic background was exceptionally unfavourable. The international environment, about which the paper said very little, was considerably worse than it had been in the early 1970s; although it could not be avoided, the Budget had made things worse for inflation in the short-run; the UK's performance, as indicated in the declining ratio of

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manufactured exports to manufactured imports, had declined dreadfully; and recent experience with pay bargaining showed that union leaders were primarily interested in the RPI and higher money wages as the basis for negotiation, and hardly at all in output. One of the main priorities must be to "sell" the Budget and undermine the arguments of the trade union critics: otherwise, the Budget strategy would all too easily fail, before the supply effects came through. The forecasts in the Financial Statement and Budget Report had unfortunately given the critics a field-day. It was a pity they had been published since they were unreliable and their basis was in doubt. On pay bargaining too, it was essential to convince negotiators that the traditional approach would only mean more inflation and more stagnation. It was important to get this message over in time to influence the mood of trade union conferences this summer.

In further discussion, it was argued that the trade unions might try to breach the strategy. The Government's attitude to them, and its policies affecting them, were crucial for the strategy's success. The paper did not really confront the question of to what extent, and in which sectors, it would be wise to resist the trade unions. It would be helpful to have a separate paper setting out the timing of major claims over the coming winter, what were the critical ones from the point of view of the unions' possible stranglehold over the economy, and what were the options for Government. On the other hand, it was argued that there was more than an even chance of getting through the winter without a show-down. At the moment, the unions did not appear to be looking for one, and the risks would be less in a situation where we were relying on monetary discipline rather than on pay norms - or even the possibility of a pay freeze. At the same time, however, the risk remained that the unions might unite against the Government; for, despite the disarray which they were currently showing, they were still very powerful. This meant that it would be unwise to legislate too much or too fast. In addition, it was worth remembering that many of our difficulties with the trade unions

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were due to poor management. This was particularly so in the public sector where - not coincidentally - the unions had caused the greatest difficulties.

The proposals of the Secretary of State for Employment for legislation on the trade union front would be discussed by E Committee the following day. These did not, however, cover the questions of taxing unemployment benefit, paying supplementary benefit to strikers and the PAYE rebate and it would be worth considering these in due course. It would also be worth considering the manner in which individuals were able to collect their unemployment benefit: on the face of it, it seemed all too easy for benefit to be collected.

It was further pointed out that, while attitudes must change, this would be no easy matter. The psychology of much of the working population, but particularly in the North, was unfavourable. Many people preferred to continue with our present, unsuccessful ways, rather than accept the challenge of improvement. A major task must be to change attitudes, and to do so rapidly. This was necessary not only as part of the rebuilding process, but also in order to retain the electorate's support if and when there were industrial trouble. On the other hand, it was argued that there already were signs of a change in attitudes. People understood much more than they had done that manufacturing industry needed priority, and that the country would only revive if industry became competitive once again. However, it was important to consolidate this change of mood - particularly, given the immediate economic prospect, and the need to get through it without disruption.

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In further discussion, it was argued that Ministers must make every effort in the months immediately ahead to put over the Government's strategy. Further work was needed on clarifying what the message should be, but there was already sufficient to be getting on with. It was also important that the press should carry as many "good" stories as possible on the economic front which would show that the strategy was working: the Paymaster General and the No. 10 Press Secretary would have an important role to play here. On the other hand it was argued that Ministers needed more resources for putting together speech material. They did not always have the time to do it themselves, and Information Departments were ill-equipped to help. Against this, it was pointed out that there was a difference between the basic ideas in the strategy and putting them into the right form. No. 10 and the Treasury ought to be able to help with the former, while Information Departments could surely help Ministers with drafting. In addition it was argued that presenting the strategy should come not only from Ministers but also from other quarters. For example, the Government's friends in the press, the IEA and selected businessmen could perhaps be persuaded to do more.

Summing up, the Prime Minister said that the meeting had been a useful, first discussion. Following on the proposal for specific ideas to help with the supply side of the economy, the Secretaries of State for Industry, Employment, the Environment and Trade and the Chancellor should send their own lists of ideas to the Prime Minister by the end of this week. These lists would then be examined by John Hoskyns and Sir Kenneth Berrill and priorities would be established. Secondly, Ministers should do all they could to present the strategy. John Hoskyns would be in touch with them, and would provide assistance in the form of basic ideas. The

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Conservative Research Department might also be able to help. It would be for Information Departments to assist Ministers in putting speeches together. Thirdly, the Home Secretary should arrange for the Civil Contingencies Unit to prepare a paper setting out the timing of major pay claims over the next year, the problems which these could involve and the Government's options for dealing with them. The Secretary of State for Employment might wish to be associated with this work. Fourthly, Ministers would need to meet fairly regularly to consider the strategy. But it would not be worthwhile unless there was something specific to look at. The examination by John Hoskyns and Sir Kenneth Berrill of the lists of proposals which Ministers would be preparing should therefore provide the basis of discussion for the next meeting of Ministers.

TL.

Copies to:-

PS/Home Secretary
/Secretary of State for Industry
/Secretary of State for Energy
/Secretary of State for Employment
/Secretary of State for the Environment
/Secretary of State for Trade
/Lord President
/Chancellor of the Exchequer
/Sir John Hunt
/Sir Kenneth Berrill

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LIST OF THOSE ATTENDING PRIME MINISTER'S
MEETING TO DISCUSS THE JOHN HOSKYN'S PAPER
AT 11.00 A.M. ON MONDAY 18 JUNE

Home Secretary

Secretary of State for Industry

Secretary of State for Employment

Secretary of State for the Environment

Secretary of State for Trade

Lord President of the Council

Chancellor of the Exchequer or John Biffen

PM's notes from Strategy
Mtg on 18/6/79

Stop the Roll

Turn Round

Prevention

Supply constraints

Psychology —

~~Defensive~~ Retreat
Advance

Palmi Misch

One answer would be 5

put Michael Herltini on

E center ?

Wider Basis than now. *

Recovery, Stimulus

Chancellor.

← Zero-inflation

Charter reduction
on money supply

Pay fixed out.

Direct & indirect of
banking system.

* Continuing progress of things keep
each better.

Time cuts not enough.

Recess →

Select one Minister - to explain
to Ind. + Local govt.

Part of package - mini 1 accident
- clearance
- election

- ① Trade Union govt
Local work
- ② Emergency Rule -
Control.
- ③ Floods State
=

● Output.

Net Disposable Income.

to

Mones.

Christopher.

Output

Lisa / days.

Index

Kelt.

Man Howard.

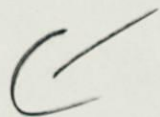
● Two lists .

+ve

—ve .

Good News Stories

Wheat Jane



Announcements this
week.

Shirley

20 --

Is there a chance for a buy
quick private word with
you after the meeting and
before your lunch.

(Wan)

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10 DOWNING STREET

From the Private Secretary

Com BI ✓
pc Mr Wolfson
James Hoskyns
cc FO
Paymaster General
19 June 1979

I enclose a note of the meeting on Government strategy which took place here at No. 10 yesterday morning. Please could you ensure that its circulation is confined to Ministers and to your Permanent Secretary.

I am sending copies of this letter and enclosure to Tony Battishill (HM Treasury), Andrew Duguid (Department of Industry), Ian Fair (Department of Employment), David Edmonds (Department of the Environment), Bill Burroughs (Department of Energy), Tom Harris (Department of Trade), Jim Buckley (Lord President's Office), Gerry Spence (Central Policy Review Staff) and Martin Vile (Cabinet Office).

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John Chilcot, Esq.,
Home Office.

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