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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

STRATEGY

Note by the Central Policy Review Staff

1. On 18 June a group of Ministers met under the Prime Minister's chairmanship to discuss Mr John Hoskyns's paper on the Government's Economic Strategy. At the end of that meeting Ministers were asked to send in individually lists of their own specific proposals for desirable initiatives. There was, predictably, a certain amount of overlapping and the proposals were grouped in different ways. In the Annex to this note the CPRS has amalgamated the proposals where this seemed desirable to reduce duplication and grouped them under main headings.
2. Looking at the proposals it seems clear that they are aimed primarily at improving the supply side of the United Kingdom domestic economy. There is little about external influences (the exchange rate, the EEC, OPEC, and energy supplies, etc.) or about demand (the extent to which the supply side improvements can be expected to come through if domestic and overseas demand is weak and the exchange rate makes imports unusually cheap). The timescale over which the various initiatives might be expected to pay-off to any important degree varies considerably. Most of the suggestions can only be expected to bear fruit in the medium and long term. This is no reason for rejecting them. If the eventual pay-off looks attractive, this is a good reason for starting to make the changes as early as possible. But it does mean that, except psychologically, comparatively few of the suggestions will help in the 'J' curve period immediately ahead.

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3. The list is a long one and an indigestible agenda for a Ministerial discussion. The CPRS, in consultation with Mr Hoskyns, has selected a number of proposals which it believes merit priority attention. In the Annex these are marked with an asterisk, and some background comments have been added. The selection has been based on the criterion that the prime focus of the suggestions is the improvement of productivity. The failure to mark a suggestion with an asterisk does not imply that the proposal is not worth Ministerial consideration, though there are a few cases where the CPRS believes that the resources needed might be disproportionate to the likely result (e.g. additional tax incentives for working wives) or believes the medium term effects are uncertain (e.g. temporary suspension of development land tax).

4. The CPRS suggests that collective consideration by Ministers should focus on the items in the Annex which are asterisked and the associated comments. The unasterisked items could be looked at by the Minister whose Department is listed as being in the lead, with later collective consideration of a worked-up policy proposal where that examination has proved promising.

5. The questions on which Ministers will wish to reach a view are -
- (a) Do they generally agree with the selection of priority items shown in the Annex?
 - (b) Which of these items do they consider are already being sufficiently pursued, and which do they think require further work?
 - (c) How should further work, where required, be put in hand (e.g. within the lead Department where this can be clearly identified, interdepartmental review, CPRS study, etc.)?
 - (d) Do they agree that other items in the Annex should be handled as proposed in paragraph 4 above?

Cabinet Office
16 July 1979

Att

STRATEGY - PROPOSALS BY MINISTERS

1. Ministers' proposals for initiatives to advance government strategy have been amalgamated where possible and grouped under the following classification -

I. LABOUR

- (a) SKILLS
- (b) WORK INCENTIVES
- (c) LABOUR RELATIONS
- (d) EMPLOYMENT PROTECTION
- (e) MOBILITY

II. CAPITAL

- (a) INDUSTRIAL POLICY (including Corporate Taxation)
- (b) REGULATORY CONSTRAINTS
- (c) COMPETITION POLICY
- (d) FINANCE
- (e) SMALL FIRMS

III. LAND

IV. PUBLIC SECTOR

- (a) EFFECTS OF THE NATIONALISED INDUSTRIES AND OF PUBLIC SECTOR PURCHASING POLICY ON THE PRIVATE SECTOR
- (b) PUBLIC SECTOR EFFICIENCY

V. EDUCATION OF THE PUBLIC (EXHORTATION)

2. In the attached lists, after each proposal is shown:
- (a) The Minister or Ministers making the recommendation (KJ = Secretary of State for Industry, GH = Chancellor of the Exchequer, MH = Secretary of State for the Environment, JN = Secretary of State for Trade).
 - (b) The lead department(s) (underlined) and other departments involved.

The asterisks against the paragraphs show the proposals which the CPRS considers to be most important.

I. LABOUR

(a) SKILLS

* 1.1 Review training arrangements and effectiveness.

- (i) Overcome, perhaps through EITB, AEUW opposition to dilution and replace the apprenticeship system by certification rather than entry to craft only through time serving (a) KJ, GH, JN. (b) DE.

Comment

The rigidity of the apprenticeship system in engineering and the rejection of 'dilutees', whether late entrants trained in firms or trainees of Government Skill Centres, is a major cause of skill shortages. Improvements can only be achieved by negotiation with the unions involved, and will take time.

- (ii) Review the structure of the Manpower Services Commission and their training centres, and the effectiveness of the ITB's (a) KJ (b) DE.

Comment

A review of the Government's own training arm (the Manpower Services Commission) in in hand.

* 1.2 Examine the relationship of industrial needs and attitudes at all stages of the educational system. Although government has little direct influence over the education system, it can achieve a lot by sustained pressure. (KJ, MH, GH).

- (i) Change priorities of system: raise the status of managers, engineers and entrepreneurs; specific grants and programmes to relieve known shortages, e.g. electronic engineers (a) GH (b) DES, DOI, DE.
- (ii) Get into curricula importance and attractiveness of industry (especially change attitude of teachers) (a) KJ (b) DES, DOI.
- (iii) Instil economic realities (having to earn a living) (a) KJ (b) DES, DOI, DE.
- (iv) Stress need for greater relevance (e.g. maths and computer services) (a) KJ (b) DES, DOI, DE.

Comment

The education system needs to become more responsive to the needs of industry. The Government can influence higher and further education to some extent, but schools have traditionally been largely independent from central Government over what they teach and how. Imposing direct controls would involve a head-on

collison with local authorities and teachers which would probably not be worth while. But there is a need to identify indirect levers, and other means of increasing pressure, which would help to improve the position. [The CPRS is doing work in this area.]

1.3 Encouragement of able women to enter industry as a major source of untapped talent (a) KJ (b) DOI, DES, DE.

(b) WORK INCENTIVES

- * 2.1 Continue to widen differentials in net earnings through taxation system to encourage acquisition of skills and acceptance of responsibility (a) KJ, JN
(b) IR, Treasury.

Comment

Improvement of financial incentives to make skilled people in particular better off is central to the Government's strategy. The Budget took the first step and a main continuing priority is to cut back expenditure to make room for further tax cuts.

- * 2.2 Continued action to reduce the poverty trap; (a) KJ, (b) Treasury, DHSS, IR, DOE.

Comment

There are two aspects to the poverty trap, both of which are damaging to incentives. First, there is the 'poverty trap' proper as it affects people in work on low incomes. The combined effect of tax, national insurance contributions and the withdrawal of means-tested benefits can leave them with little or no benefit from increased earnings. The position has improved in recent years (due to higher thresholds and the lower rate band) but the interaction of tax thresholds and social security benefits needs to be kept under review.

Second, there are financial disincentives which may deter the unemployed from taking up work (especially those with larger families, or those who can exercise choice on relatively short term spells of unemployment). The level of child benefit is an important factor. It would also help considerably if short term benefit were taxed. The option for taxing at least unemployment benefit by 1982 needs to be vigorously pursued.

- 2.3 Clamp down on malingering-tighter control of e.g., the issue of sickness certificates before strikes and periods without benefit before claim (a) KJ, (b) DHSS, DE.
- 2.4 Examine the Truck Acts; (a) GH, (b) Treasury, DE.
- 2.5 Reduce the discouragement to women to take technical and industrial jobs where skills are in short supply; (a) GH (b) DE.

- (i) Allow women to set child-minding expenses against personal taxation;
(a) KJ (b) IR, Treasury, DHSS, DE.
- (ii) Allow working wives to be taxed separately without husbands losing the married person's allowance; (a) KJ, (b) IR, Treasury, DE.

* 2.6 Undertake a comprehensive review of all forms of employee profit sharing and develop programmes for implementation; (a) MH, (b) Treasury, IR.

Comment

The objective would be to give workers an interest in their firm's profitability by profit sharing schemes. But major expansion of such schemes may be difficult given the large fluctuation of profit for reasons outside workers' immediate control.

- 2.7 Encourage share options for senior executives by tax exemption; (a) KJ, (b) IR, Treasury.

(c) LABOUR RELATIONS

3.1 Government campaign to increase the attractiveness of productivity and the unattractiveness of restrictive labour practices; (a) KJ, (b) DOI, DE.

* 3.2 Consider establishment of body to enquire into and publicise restrictive labour practices; (a) KJ, (b) DE, DOT, DOI.

- (i) Tackle restrictive labour practices by being ready to refer them to the MMC under the Fair Trading Act, (a) GH (b) DOT, DE, DOI.

Comment

The possibility of a body to publicise restrictive labour practices merits further study. It would be a means of keeping Unions on the intellectual and moral defensive and publicity might help to encourage reform of the less justifiable practices. But actual powers to combat such practices are difficult to find, (e.g. car industry, Fleet Street) and there would be a need to show evenhandedness between shop floor restrictive practices and professional ones. [The CPRS is considering a fact-finding study in this area.]

3.3 Measures to improve the structure of trade unions, including mergers of the smaller ones; (a) GH (b) DE.

* 3.4 Consider the extent to which (i) closed shop legislation, and (ii) ACAS act as supply constraints, (the latter by making it easier for unions to establish themselves in new firms, thereby reducing productivity; (a) JN (b) DE.

Comment

Proposals have already been announced on industrial relations legislation affecting the balance of industrial power (closed shop, picketing and secret ballots).

3.5 Initiate comprehensive programme to stimulate a better climate of communication in British industry between managers and men; (a) MH (b) DOI, DE.

- (i) Promote the election of worker, not trade union, representatives to the boards of pension funds; (a) MH (b) Treasury.
- (ii) Encourage visits by shopfloor workers (and shop stewards) to plants in main competitor countries; (a) KJ (b) DE, DOI.

* 3.6 Improve morale of supervisors and managers as opportunity offers (e.g. in the public and private sectors by discouraging compromise in industrial disputes at the expense of managerial authority); (a) KJ (b) DE.

Comment

Perhaps the most important way the Government can help to redress the balance between Unions and management is by supporting managerial authority in dispute. Much harm has been caused in recent years by Ministers encouraging management a firm stand initially, only to step in later to encourage compromise when the gets rough. This undermines both management and moderate Union Leaders.

3.7 Consider the case for encouragement of better conditions at work as a re incentive to higher productivity; (a) KJ (b) DE.

* Note: Ministers may wish to consider whether positive steps could be taken by Government or the CBI to encourage on a voluntary basis flexible but adequate arrangements for greater worker involvement in their firms (e.g. through bodies such as works councils or other consultative machinery). Progress in this area could help to counter the unions' arguments for statutory provision for "ind democracy", as well as improving management/shop floor relations.

(d) EMPLOYMENT PROTECTION

* 4.1 Review Employment Protection Act etc. (a) JN, KJ (b) DE.

Comment

This is in hand.

4.2 Give industrial tribunals power to award costs where frivolous cases have been brought by employees (a) KJ (b) DE, Lord Chancellor.

4.3 Good redundancy schemes for overmanned nationalised industries (a) KJ (b) DOI, Transport, DOT.

(e) MOBILITY

* 5.1 Examine labour mobility in depth (a) MH (b) DE, DOE, DOI, DES, IR.

Comment

A review of the factors which may inhibit labour mobility would be valuable. [The CPRS has some work in hand.] However, it is not clear how important constraints on mobility are in inhibiting industrial performance. There are many factors beside housing which constrain mobility (e.g. education of children, spouse's employment, care of elderly relatives, social attitudes) not all of which are susceptible to changes in Government policy. The case for housing reform arises primarily in the context of the Government's public expenditure policy. There are undoubtedly many controls and costly subsidies (in both the rented and owner-occupier sectors) which are not cost-effective and lead to distortions and mismatches between supply and demand.

5.2 Sustained reform of housing policy to encourage labour mobility (GH, KJ,

- (i) Phase out rent controls;
- (ii) Remove all rent controls from new housebuilding for rent;
- (iii) Systematically dismantle rent control and tenure in areas where housing supply and demand in balance;
- (iv) Examine tenant security.
 - (i)-(iii) (a) GH, KJ, JN (b) DOE.
 - (v) Immobility created by Council Housing System (a) JN (b) DOE.
 - (vi) Take special steps to facilitate mobile homes sites in areas of site shortages (a) KJ (b) DOE.
 - (vii) Housing (Homeless Persons) Act 1976 (a) JN (b) DOE.
 - (viii) Reduce stamp duty and other costs of movement (including legal fees, house agents' fees etc.) (a) KJ (b) IR, DOT, DOE.
 - (ix) Increase supply of building land by short suspension of DLT (a) IR, DOE.
 - (x) Increase land supply by maximum disposal of public sector land (a) DOE, all depts.

II. CAPITAL

(a) INDUSTRIAL POLICY (including Corporate Taxation)

6.1 Define what the government wants from the little NEDDIES and Sector Working Parties. We should work to create the climate, provide the incentives, remove the constraints, and ask the uncomfortable questions, all with the purpose of improving the performance of British industry (a) MH (b) Treasury, DOI.

6.2 Carry forward work already in hand on marketing, product development and import substitution, including the improvement of collaboration between buyer and seller sectors. Encourage companies and nationalised industries to emulate Marks & Spencer in promoting British suppliers (a) MH (b) Treasury, DOI, Dept of Trade.

6.3 Devise urgently a range of incentives as part of our regional and industrial policy to ensure that our new and future tax reductions go into increasing wealth creating activities. The basic concept should be tax rebates - PAYE, corporation tax and investment income surcharge - to those who have shown by the fact that they paid such taxes that they are likely to be able to use such rebates more effectively than those currently receiving industrial aid for projects, many of which would go ahead anyway (a) MH (b) Treasury, IR, DOI.

6.4 Structure tax and depreciation provisions for companies so that a higher proportion of reinvestment capital is, in effect, subject to competitive capital market tests of profitability (a) MH (b) Treasury, IR, Dept of Trade.

* 6.5 Review the system of corporate taxation with a view to encouraging real profitability and adequate investment in fixed assets and stocks (a) GH, JN (b) IR, Treasury, DOT.

Comment

A review of corporate taxation is already under way. This will need to consider how the efficient use of capital can be encouraged and the extent to which taxation should be adjusted to the true (after inflation) levels of profit. Progress on standards for inflation accounting in the accountancy profession will be relevant. Industry has however made it clear in recent years that it values stability of tax structure more than particular forms of incentive. The Government will want to be satisfied that changes will be worthwhile and lasting, and time should be given for full consultation.

* 6.6 Review effects of regional policy in preventing natural expansion and fragmenting industrial development (a) JN (b) DOE, Dept of Industry.

Comment
Ministers are actively reviewing regional policy. In addition to more selective reliefs, proposals for new schemes to encourage local initiatives (e.g. enterprise zones) need urgent consideration.

6.7 Phase out NIS (as a tax on employment) (a) KJ (b) Treasury, DE.

6.8 Encourage better manpower planning by firms (e.g. use of skilled and high qualified manpower) (a) KJ (b) DE.

(b) REGULATORY CONSTRAINTS

* 7.1 Review planning procedures, including local authority controls, IDC's and ODP's (a) GH, JN (b) DOE, DOI.

Comment
There have been improvements in the last year or two but planning procedures and related regulations can still inhibit industrial expansion and need review. The CPRS is doing some work on this.

7.2 Review (i) environmental controls, (ii) building regulations and (iii) health and safety regulations including the procedures by which they are introduced and implemented (a) GH also KJ (i) and JN (ii) (b) DOE, DE.

7.3 Reduce over-sensitivity to environmental considerations (e.g. Moss Morran and Whitty Potash) (a) KJ (b) DOE.

7.4 Review role of Health and Safety Executive (and Commission) (Chief Executive of HSE publicly asserts that industrial efficiency is no concern of HSE). Ask CBI to play more positive part in the Commission (a) KJ (b) DE.

7.5 Removal of the present need for separate application procedures for Industrial Estate Corporations and Investment Grants (a) JN (b) DOT.

(c) COMPETITION POLICY

* 8.1 Need for a strong and effective competition policy (a) JN (b) DOT.

Comment

A strong and effective competition policy is needed to improve efficiency. A major start is being made with the Competition Bill.

8.2 Recognise that tougher competition policy is wholly compatible with less obstructive attitude to some (many?) take-overs; raise thresholds for referral to MMC (a) GH (b) DOT.

8.3 Remove or reduce possible encouragements to merge caused by present tax and consider removing tax and other obstacles to companies which want to demerger (a) GH (b) IR, Treasury, DOT.

8.4 Enable MMC to examine large holding companies which have become insensitive to commercial pressures (a) MH (b) DOT.

(d) FINANCE

* 9.1 Reduce the bias against investment in productive assets. Look at the tax treatment of financial institutions and the tax incentive to various forms of personal savings, including the building societies, with the aim of removing any bias against the flow of savings into small businesses (a) GH, KJ (b) IR, Treasury.

Comment

The present system of tax relief for savings has grown up haphazardly and does not reflect present day economic needs. It effectively discriminates in favour of housing, gilts and the large institutions and against investment in productive industry (especially small firms).

9.2 Extend favourable taxation treatment for gilts to long-term corporate debentures (a) KJ, GH (review position) (b) IR, Treasury.

9.3 Possible equity guarantee scheme for institutional investment (a) KJ (b) Treasury, DOT.

9.4 Eliminate distinction between earned and unearned income (a) KJ (b) IR, Treasury.

* 9.5 Stimulate the small and large shareholder to play a proper role in the dialogue with government and in the performance of the companies they own (a) MH (b) DOT, Treasury.

Comment

While the small shareholder is not likely to exercise a major influence on the management of his firm, there is a need to stimulate institutional investors, including the Clearing Banks, into taking a greater interest in improving management standards. [The CPRS has done some work in this area.]

9.6 Promote use of non-executive directors to encourage spread of more open and enlightened management practices (a) KJ (b) DOT.

9.7 Elimination of exchange controls (a) KJ, JN (b) Treasury.

(e) SMALL FIRMS

- * 10.1 Eliminate undue obligations and burdens on small firms (a) JN (b) DOE, IR, C and E (and others).

Comment

There is a need for further work to eliminate bureaucratic controls and burdens on small firms.

- 10.2 Draw up comprehensive programme of technical tax changes to benefit small firms (a) KJ (b) IR, C and E, Treasury, DOI.

- * 10.3 Give tax relief for individuals investing in small firms' equity (a) IR, Treasury, DOI.

Comment

While there were some worthwhile tax concessions for small firms last year further options need to be studied. In particular there is a case for relief for individual investors of venture capital either on their original investment or on any loss made. [The CPRS has been associated with work on relevant options.]

- 10.4 Encourage big firms to help small firms with advice and expertise, (after precedent of the London Enterprise Agency) (a) MH (b) DOI.

- 10.5 Slant Government contracts for supplies and services in favour of small and medium sized firms, (though still with competitive trading) e.g. break large contracts into smaller amounts (a) MH (b) Treasury, CSD, MOD (and others).

- 10.6 Initiate a dialogue with local government on stimulating new and small businesses (a) MH (b) DOE, DOI.

- 10.7 Review rapidly the "enterprise zone" concept (a) MH (b) DOI, Treasury, DE, DOE.

- 10.8 Involve the leaders of the new immigrant communities in a dialogue to see if anything more needs to be done to harness the range of entrepreneurial skills widely spread amongst these people (a) MH (b) DOE, DOI, HO.

III. LAND

- 11.1 Review Land Taxation (a) JN (b) IR, DOE, Treasury.

- 11.2 Review Land Commission (a) JN (b) DOE.

- 11.3 Inadequate supply of suitable premises and sites (particularly for small firms) (a) JN (b) DOE.

- 11.4 Public Sector Land Holdings (e.g. London Docklands) (a) JN (b) DOE.

IV. PUBLIC SECTOR

(a) EFFECTS ON THE PRIVATE SECTOR OF THE NATIONALISED INDUSTRIES AND OF PUBLIC PURCHASING POLICY

* 12.1 Increase enlightened clientship by public purchasing of micro-electronic science and technology etc (a) KJ (b) DOI, MOD (and others).

Comment

Public purchasing policy can provide a means of encouraging technological advance. The results are not likely to be spectacular, but some worthwhile steps may be possible.

* 12.2 Consider the effects of the imposition of arbitrary technical standards by nationalised industries (e.g. nuclear power, telecommunications) (a) JN (b) DOI, DE (and others).

Comment

The role of Government in setting standards either generally or through public purchasing policy needs to be reviewed and developed. It could be used as a means of improving quality and strengthening the competitive position of home produced goods against imports. [The CPRS plans some work in this area.]

12.3 Consider how public sector agencies can make their skills available to private sector for international trade purposes (e.g. BAA, CAA) (a) MH (b) DOI (and others).

12.4 Raise non-tariff barriers to imports by concentrating public sector subsidies so as to increase administrative delays (a) GH (b) CSD, DOT, C and B.

* 12.5 Develop an energetic nuclear power programme (using PWR if necessary) (b) DE.

Comment

Policy on nuclear power development is a crucial area, and will be being pursued as a major part of the Government's wider energy policies.

(b) PUBLIC SECTOR EFFICIENCY

* 13.1 Consider monopoly power of nationalised industries (e.g. supply of power, telephones) (a) JN (b) DOI, DE, Transport, DOT, Treasury.

Comment

There is not much scope for abolition of the monopoly position of some nationalised industries but options for reducing this monopoly in specific areas are worth considering (e.g. telephone equipment).

* 13.2 Review scope for, and stimulate, private sector competition to supply public sector services (e.g. transport, refuse collection, housing and maintenance) (a) MH, KJ (b) Transport, DOE.

Comment

The use of private contractors to provide a larger share of services like refuse collection, public housing maintenance and public transport will be fiercely fought by the Unions concerned and by some local authorities. But there is probably scope for considerable improvements in productivity if competition can be introduced.

13.3 Examine the possibility of City financial institutions entering into partnerships with educational establishments for the building of universities, polytechnics etc (a) MH (b) DES, Treasury.

13.4 De-privilege the Civil Service (and Academia?) by reducing security, greater ruthlessness in use of premature retirement, etc (a) KJ (b) CSD, DES.

13.5 Diminish power of Civil Service unions by reducing "facility" time, withdrawing (or threatening to withdraw) willingness to deduct union dues from wages and salaries, reasserting managerial authority (e.g. in reporting standards? etc) (a) KJ (b) CSD.

V. EDUCATION OF THE PUBLIC (EXHORTATION)

14.1 Draw up and orchestrate a continuing programme to articulate the profound nature of the individual resurgence we are seeking to create (a) MH.

* 14.2 Seize every opportunity to put across to public opinion the gravity of our industrial situation and the fact that the world does not owe us a living (a)

* 14.3 Promote greater awareness of the role of profit; educate those engaged in collective bargaining to relate pay to company performance; accelerate the introduction of inflation accounting to help destroy "money illusion" (a) GH.

* 14.4 Launch a nationwide debate about the opportunities for improved production (a) MH.

Comment (paragraphs 14.2, 14.3 and 14.4)

The main message to be got over is the gravity of our industrial situation, the need for increased productivity, and the role of profit in a healthy economy. Ministers may wish to consider whether existing machinery for co-ordinating and publicising their speeches is sufficient to gain maximum publicity.

14.5 Seek to change public attitudes to Europe, to become more positive and less grudging (a) KJ.

14.6 Consider how to publicise the effect of the recent VAT increase on the attractiveness of exporting (a) GH.

14.7 Encourage (by speeches and contacts) the city institutions to look beyond the end of their noses and to protect their members' interests in the broader sense by encouraging enterprise and growth in the UK economy. Ministers to make clear that the Government expects the City generally to bestir itself (a) MH.

14.8 Ask Lord Jellicoe as the new President of the Association of British Chambers of Trade to recruit the Director General of the NFU to show him how to turn the inarticulate voice of a small industry into a vociferous and influential and political force (a) MH.

* Note. There are two additional messages which the CPRS think are important

(a) There is an immediate need to get across the message that the cost of the recent increases in VAT have already been covered by income tax cuts and that compensating wage increases are not, therefore called for.

(b) The Government needs to establish the credibility of its policies by convincing the public that it will not lightly change direction. Actions (by not giving way during the inevitable early difficulties) will be more important than words.