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10 DOWNING STREET

22 May 1981

The Rt Hon Sir Geoffrey Howe QC MP
11 Downing Street
LONDON SW1

Dear Geoff,

NCB

We talked, three weeks or so ago, about a PR campaign on the cost of coal to the taxpayer. You mentioned this in your minute to the Prime Minister of 13 May.

We have done some work on this and on the wider question of propagating the case for moderate pay settlements generally.

As you know, we have always believed that Government's actions, and events, speak much louder than words. We therefore conclude that the handling and outcome of the Civil Service pay dispute is more important than any PR campaign and that it is not possible to organise such a campaign as regards the miners unless we are first clearer about our own strategy for handling the NCB/NUM problem. Our first contribution is therefore a paper on that problem, which I attach.

I am copying this letter and the paper to the Prime Minister, David Howell, Robin Ibbs and to Sir Robert Armstrong.

Yours ever

JOHN HOSKYNS

22 May 1981

Policy UnitTHE NCB/NUM PROBLEM1. INTRODUCTION

- 1.1 Economic recovery will be largely dependent on the level of pay settlements in the next round. Especially important will be public sector settlements. As usual, the miners will set the pace.
- 1.2 We are already agonising about NCB EFLs, the level of investment and assumed pay increases for the miners. Much therefore depends on our handling of NCB/NUM.
- 1.3 At present, however, we do not have a properly worked out position on NCB/NUM (I treat them as one entity in this paper). We therefore do not know how or whether we can restrain miners' pay and thus help to moderate other settlements.
- 1.4 This paper suggests some lines of thought, by posing the following questions:
- What is the NCB/NUM problem?
 - What courses are open to the Government?
 - How do we decide what to do?
 - What is the next step?

2. WHAT IS THE NCB/NUM PROBLEM?

- 2.1 No paper yet presented to E has contained what we could call a proper "problem definition". There have been helpful papers describing the present situation and examining its likely consequences. But there has not been a real definition of the problem and we cannot make progress without one. This section raises some of the questions a proper problem definition should address.
- 2.2 In general terms, NUM appears to own NCB and all its assets. In other words, as a recent paper from the Institute of Economic Affairs put it, "Denied access to imports, the British energy consumer will be at the mercy of two semi-monopolists - OPEC and the British coal industry". The NUM insists on maintaining

investment levels to preserve jobs and also on determining the pay levels for those jobs. It is pretty confident that the Government will not seriously challenge this assumption of control. In effect, therefore, NUM sets coal prices, with their effect on electricity prices; subsidies; and pay levels with their knock-on effects in other industries.

2.3 The different interest groups within NCB/NUM

2.3.1 NCB/NUM is not, of course, a homogeneous body in reality. We need the clearest possible understanding of the different groups and factions, their relative power and interests.

2.3.2 NCB management. We know that NCB management is weak and tends to align with the unions. But, thought we may vilify Ezra, he perhaps faces a reality we don't recognise. Would we be happy if he suddenly got tough, and "took the miners on"? Perhaps he understands the nature of the NCB/NUM problem more clearly than we do and, what is more, knows that the Government doesn't understand it and has not yet faced up to its implications. Would changes in NCB management make any real difference as long as the balance of power is so heavily tilted in favour of the NUM?

2.3.3 Scargill and the succession. Our thinking is influenced by the need to help the moderates triumph over the militants. But what price are we prepared to pay to do that, and what is the pay off? Could we end up buying peace to thwart Scargill, at the cost of jeopardising our broader economic objectives? This raises further questions:

- (a) In any case, how strong is Scargill's position? Could a period of peace really destroy his chances?
- (b) Even if it could, what would the likely militant/moderate mix be on the NUM Executive? Is the likelihood of an eventual confrontation with the miners entirely, or even heavily, dependent on whether Scargill succeeds Gormley? Would it be fair to say that, if he does, he will be determined to engineer such a confrontation and (with, after all, little else to think about) successfully do so?
- (c) To what extent has NUM power effectively outflanked all the measures we can take to reduce it? Can we regionalise? Can

we increase import facilities or even win back the concessions we have made over the use of existing facilities?

3. WHAT COURSES ARE OPEN TO THE GOVERNMENT?

3.1 The "no-strategy" strategy

3.1.1 This has been our position so far, at least until the decision to increase power station coal stocks was made and the present CCU exercise was put in hand. Our position has been that we do not want a miners' strike; but we don't want to increase the coal industry EFLs; nor do we want the Government's impotence or the effectiveness of NUM's veiled threats to weaken our authority and encourage imitation elsewhere. These are simply conflicting objectives.

3.1.2 Our experience since the Election is not encouraging. The annual ritual is one of a commendable display of firmness, in words, by the Government; a rattling of sabres by the NUM; and a rapid climb-down by the Government because there seems no other option available.

3.1.3 We can improve on this by avoiding making strong statements of intent which we cannot in practice sustain. But the question still arises, what do we do if, in a year or two, Scargill demands, with menaces, a 30% increase with no offsetting closures or investment cuts?

3.2 Prepare to face a miners' strike

3.2.1 In the light of the CCU conclusions, we shall have to decide whether we are prepared to risk a strike and, if so, how to prepare ourselves for it (in the process, of course, aiming to deter the NUM from strike action). We shall then have to consider many aspects which the CCU paper may not cover; the likely impact of the 1980 Employment Act or subsequent legislation, changes to deeming, the possibility of increasing imports (or did we specifically deny ourselves the right to do this, even in a strike situation); and, of course, how to get public opinion - ie the coal and electricity consumer - on our side.

3.2.2 If a confrontation becomes in the end inevitable, would it in fact be an advantage if Scargill was the public (and apparently much

disliked) symbol of the NUM? Could his presence be a key factor in mobilising public opinion to face a strike?

3.2.3 Even though Scargill may be the ideal NUM figurehead, the fact remains that miners are seen to be (and most people with any direct contact would say are) the "salt of the earth". Could we take out some insurance against grievance building up and public sympathy for the miners by, for example, a much publicised visit to a mine, perhaps in one of the more hard-hit areas, by the Prime Minister? There are always many things we can do to improve our chances, provided people do the thinking, and do it early enough.

3.2.4 Finally, has this Government and the Whitehall machine got the necessary competence to handle such an operation successfully? Are colleagues prepared to consider the option, to think it through on the lines suggested in this paper? Are some of them so scarred by 1974 that they are not able to examine the problem rationally? (There are, we understand, one or two officials who were involved in the 1972 contingency planning who believe that the Government could have won in 1972 or 1974 if it had successfully communicated to the public what was at stake and then taken all the necessary action, on the three-day week, TV blackouts etc, immediately, as CCU will no doubt recommend.) If we are prepared to think about the unthinkable, but have not the competence, can we develop that competence?

3.3 Is there a more subtle strategy?

3.3.1 Could we alter the balance of power bit by bit, in a clandestine way, so that what we are doing only becomes obvious when that balance has finally tilted? What would such a strategy cost? Would it break other public expenditure constraints en route to its completion? Measures might include import facilities and regionalisation as in 2.3.3. above. The difficulty with such plans is that, at present, NCB management lack the competence to carry out such an exercise.

3.3.2 Again, faits accomplis on trade union law might be possible. Should state monopoly industries controlled by labour monopolies enjoy 1906-vintage immunities? Should they enjoy any special immunities

at all? Would it make much difference to the strike threat if they didn't?

3.3.3 Are we agreed that the Government should stick to the EFL and leave it to NCB and NUM together to determine prices and to split the EFL as between investment subsidy and pay? If the NUM behaved irresponsibly, they, not the Government, would be running the industry down, jeopardising its future etc. Even if they started out damaging the industry in that way, could that be any worse than the damage caused to the industry itself by an all-out strike? Suppose we insisted publicly that the NUM took proprietorial responsibility, together with NCB, for running the industry on the understanding that import facilities could be freely developed? Is it really possible to make any progress in reducing the NUM's monopoly power without first reversing our recent concessions on imports?

3.3.4 We know that in fact NUM went for import restrictions as the key concession for their own monopoly strategy. They would therefore resist any reversal of that concession to the last. But a proposal which opened up the alarming reality would expose the NUM's monopolistic intentions and their refusal to take any compensating responsibility for the industry through which they are ready to exploit customers and taxpayers. (We suspect that the concessions over imports may only be reversible if the Government is ready to face a strike. The concession might be reversed if the NUM lost its nerve at that point or perhaps only after it had effectively lost the strike.)

4. HOW DO WE DECIDE WHAT TO DO?

4.1 We lack an adequate decision-making process

4.1.1 The decision is not simply difficult in terms of political judgment. It is also complex in terms of risks, pay-offs, the critical path of preparatory moves (especially if we conclude that the risk of a strike must be faced rather than avoided at any cost). We have at the moment no adequate process for doing this. E Committee cannot invent such a process as it goes along. There are too many people there, with neither the time nor the competence to do it for themselves and with greatly varying degrees of interest in the problem. E can make decisions by selection from a menu, but it

cannot itself define or solve complex problems. It cannot produce anything better than the papers put to it contain, and may produce something worse. The meal cannot be better than the menu. In consequence, its decisions may not solve, or even address, the problem.

4.1.2 The problem has not yet been "structured" in advance by people with the time to do it. Ask each colleague for his definition of the problem, and you wouldn't get two answers the same. So instead, we have a sort of negotiation about numbers on pieces of paper. The Chief Secretary would like lower numbers, the Energy Secretary thinks that only larger numbers are achievable. The mood of the meeting is for smaller numbers and an agreement is reached, but without any means of imposing the agreed outcome on the NUM who, in the end, call the shots. So the whole process is quite unreal. It is like a Board of Directors voting unanimously for better profits, but with no idea how they are to be achieved.

4.2 The problem-solving process

4.2.1 We have made a start on this, but we believe that the right steps now are as follows:

- (1) A small interdepartmental team, including CPRS, should prepare short papers on Problem Definition and the Objectives we are trying to achieve in solving the problem. (The commonsense response, that the objective must, by definition, be to "solve the problem" turns out to be meaningless when you get down to it. The objectives have to spell out rather precisely the best outcome you are hoping for, and the very least that you must achieve if other larger ^{UK} objectives are not to go for six.)
- (2) E, or perhaps a smaller Ministerial group, should then satisfy itself (quite possibly requiring the papers to be completely rewritten) that the Problem Definition and Objectives are right.
- (3) The interdepartmental group should then generate alternative plans of action to achieve the objectives, with careful analysis of the risks, timescale and "enabling measures" needed to make each alternative workable.

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(4) E, or the Ministerial group can then choose one of the plans, preferably with a fallback plan, and the interdepartmental team sets to work to make it happen.

4.3 All this is very obvious. It cannot ensure magical answers to difficult problems. But it will help to clear people's minds. It is simply a case of one step at a time, methodical work, and "99% perspiration".

5. WHAT IS THE NEXT STEP

5.1 We recommend that a small team, as described above, is set up (who should be in the lead?) to work out the process by which the Government defines the NCB/NUM problem, chooses a way of solving it, and implements that solution.