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CONFIDENTIAL

ECONOMIC RECONSTRUCTION GROUP

Minutes of the meeting held at 10 a.m. on Thursday 16th December 1976 at the House of Commons.

Present: Sir Geoffrey Howe MP (Chairman)
Mr. John Biffen MP
Mr. Barney Hayhoe MP
Mr. David Howell MP
Mr. John Nott MP
Mr. James Prior MP
Mrs. Sally Oppenheim MP

Mr. Adam Ridley } Secretaries
Miss Anne Bulloch }

Mr. George Cardona
Mr. Robbie Gilbert

Apologies: Mr. Kenneth Baker MP
Mr. Ian Gilmour MP
Mr. Brian Griffiths
Sir Keith Joseph MP

Countering Inflation: The Next Stage

Papers by Professor Jim Ball, the EEF, Mr. Ridley and Mr. Gilbert were considered during a discussion on the next, or transitional, stage of incomes policy. Professor Ball argued for a straight percentage limit during a year of transition to free collective bargaining. His paper set out the case for incomes policy as a means of keeping down unemployment and as an adjunct to proper control of the money supply. His emphasis on the importance of the latter was in interesting contrast to his views three years ago. He did not, however, deal with the central problem of controlling pay in the public sector.

The EEF argued for return to free collective bargaining, but they had received little support from other industries. Consolidation of pay awards already received, and restoration of differentials would lead to substantial increases. The case for a two-year transition stage should be considered. Some form of synchronisation of pay settlements could be helpful. We should consider what bargain could be struck with the TUC, recognising that we would be likely to find this more difficult than had the present government. Employers had built up extravagant hopes of increases that could be expected when controls ended: we should have to live with the consequences.

The present government might possibly opt for a prices and incomes 'noise' in the next stage - asking for restraint, but allowing flexibility for differentials, and for bargaining over conditions of work rather than cash, against the background of a fairly tight monetary policy.

Public sector pay and cash limits

Cash limits were the principal, if not the only, practicable way of controlling pay in wide areas of the public sector. But they were subject to limitations in cases such as the police, where more recruitment was needed, claims such as the miners for early retirement or the nurses. There was no reason in principle why miners' wage awards should

.../not be passed

not be passed on in prices - if the market would bear it. Control could be exercised by tightening restrictions on investment funds. Cash limits should be applied in such a way that bargaining was over numbers to be employed, and investment as well as pay. Cash limits would not, however, prevent substantial awards being made in the public sector. These in turn led to relativity claims in both public and private sectors, and it was these claims that often did most to increase militancy. But cash limits, firmly enforced, could help to break outdated rigidities.

It was, however, wrong to suppose that they made a 'norm' for pay increases unnecessary. Setting, and holding to, a limit on the growth of money supply meant that earnings overall could only rise by a certain amount. Excessive pay increases would mean higher unemployment - particularly in the public sector. It did not, however, follow that this limit could or would apply throughout the economy.

Earnings Policy

This term offered us a new point of departure. By concentrating on earnings we could side-step many problems of relativities, poverty trap and reverse yield, and emphasise instead that change could be our ally.

Monetary targets

More consideration was needed of the implications of holding to monetary targets. How far should they 'bear down' on the rate of inflation? The present government's target would clearly be impossible to meet, with inflation at 15 per cent.

Current pay negotiations

More information was needed on the present state of play in wage negotiations and the application of cash limits, especially in local government. The fair wage schedule of the Employment Protection Act would shortly come into force. It was a prescription for unemployment and we should continue to oppose it.

It was suggested that all the indicators pointed to a 1978 election, with the Government countenancing high wage increases in the run up to it. This could leave no alternative to statutory controls; the IMF might insist on their use.

It would be useful to draw together in a paper the implications for us on coming into government, and on our stance in the meantime, of these possibilities, and of pressures building up on present policies, leaving on one side discussion of labour market changes until the CBI's paper on these was available.

The meeting closed at 11.50 a.m.

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