

STEERING COMMITTEE

Minutes of the Eighteenth Meeting held at 5.00 p.m.
on Monday, 9th December 1974, in the Leader's Room
at the House of Commons

Present: Mr. Heath (In the Chair)
Mr. Whitelaw
Mr. Prior
Mr. Carr
Lord Carrington
Sir Keith Joseph
Mr. Rippon
Mrs. Thatcher
Mr. Walker
Mr. Pym
Mr. Gilmour
Sir Geoffrey Howe
Mr. Atkins
Lord Fraser (Secretary)
Sir Timothy Kitson)
Mr. Wolff)
Mr. Patten)
Mr. Waldegrave)
Mr. Forman)
Mr. Ridley)

Apologies: Mr. Peyton

1. Direct Elections to the European Parliament (LSC/74/21)

The Committee had before it the Report of the Political Affairs Committee of the European Parliament on Direct Elections.

Mr. Rippon recognised the advantages of direct elections for the British delegation to the European Parliament, but said that in the present climate of renegotiation and referendum, we should be careful about advocating it in public. He did not think it was necessary at this stage to go beyond saying that we supported the Saragat declaration of 1969 which had been supported by Mr. Wilson. He had no objections to the contents of the document, and did not want to discourage those who wanted to make the European Parliament more effective, exercise more control over the Commission and exert more influence over Community policies.

Mr. Heath said that there were a large number of people in this country who would think that we did not take Europe seriously enough if we did not support initiatives of this kind; then there were those who had the very difficult task of being both UK and European Members of Parliament. Last year 235 days were spent on European Parliamentary business. Finally, there were those who grumbled about European bureaucracy. On the other side, there were those who saw a directly elected European Parliament as an unwelcome step towards a Federal Europe.

Lord Carrington said that we were to some extent committed by the positions taken by the European Conservative Group, and he felt that we would have to say that we endorsed what they were doing. Mr. Rippon said that we were in fact committed by the Treaty of Rome and by the Labour Government's support for the Saragat declaration, but the timing of and procedure for direct elections would have to be finally endorsed by the UK Parliament. He did not think we should go into such detail at the present time.

Mr. Carr and Mr. Prior thought that this was something on which the Conservative Party might take a lead, but Mr. Pym favoured a low key approach until after the referendum issue was settled.

Mr. Whitelaw suggested that the Jellicoe Committee should be reconstituted in order to consider detailed proposals which the Party could support.

Mr. Heath said that Mr. Kirk had asked for the Report to be considered by the Committee before it was dealt with in Plenary Session of the European Parliament. This had now been postponed until January.

It was agreed that the Committee should consider the Report at a further meeting and Lord Carrington suggested that Mr. Kirk be invited to attend. Mr. Heath said that it might have to be discussed on the first Monday after the House returned, the 13th January. He asked Lord Fraser to find out from Mr. Kirk exactly when the Report was due to be considered at the European Parliament.

2. Prospects for Economic Policy (LSC/74/20)

Sir Keith Joseph introduced his paper on this subject. The economic prospect was dominated by the miners' claim and the consequences for industry. At the moment we were overspending on a titanic scale. Any worsening of the crisis might force the Government to say that people would have to change their expectations, which otherwise they seemed disinclined to do. If the Government did not do something the country would drift into even higher inflation caused by excessive wage claims, with large firms having to be rescued at the cost of nationalisation, small firms being bankrupted and unemployment rising. The Government would then be forced to freeze wages and this would split the Labour Party. The rescue of British Leyland was a blank cheque for the militants.

Mr. Carr said that he was more or less in agreement with the conclusions at the end of the paper. On prices control, however, he favoured a more gradualist approach. Mr. Carr agreed with Sir Keith that commercial rents were very important, and lifting the freeze on business rents would be a step towards reactivating capital markets. On the last conclusion, he agreed that the borrowing requirement should be progressively reduced, but had doubts about publishing target figures.

Mr. Rippon thought that there was no possibility of controlling inflation while interest rates remained at their present levels, not only in this country but elsewhere.

Mr. Heath said that he was against two-tier interest rates only in so far as they appeared to be unenforceable, particularly in the international field. Mr. Carr said that opinion on this in the City was changing. He thought we should have another look at how to stimulate productive investment in this country without setting off consumer demand, and a two-tier interest rate was one way of doing this.

There was general agreement on business rents. Mr. Walker pointed out that there were dangers for the construction industry in public expenditure cuts, and some industries like machine tools might disappear altogether during a period of contraction.

Sir Keith said that the standard of living was going to go down fast but the Government would not admit that it was anything but steady. The highly organised unions were getting more than their share and the rest of the population were suffering.

Mr. Prior said that our industrial prices were becoming less competitive abroad and were experiencing foreign competition even in the home market. He pointed out that wage increases were much higher than the Department of Employment admitted, as threshold increases were disregarded and actual increases were in the region of 34-36 per cent and not 20-22 per cent as claimed.

Lord Carrington said that only industrialists themselves could change the climate by admitting that things were serious. So long as they said they were all right, people were not worried.

Sir Geoffrey Howe thought that we could do more to stress the seriousness of the situation and the consequences. Not only industry was going to be affected but the public authorities and the general public. He referred to a paper by Peter Lilley on the cyclical situation in Germany before the war, Chile and Brazil and where we now stood in that cycle.

Mr. Prior quoted Mr. William Rees-Mogg's recent Sunday Times article saying that we would muddle through the present crisis but would be more severely hit in three years' time.

Mr. Rippon thought that it was possible to get some international agreement to bring down interest rates.

Mr. Whitelaw warned of the political dangers of prophesying doom which took a long time to manifest itself. He did not think we would be believed until there were spectacular redundancies and then it would be too late.

Mr. Heath thought that subsidies ought to be removed but this would have an impact on prices and through them on wages and our competitiveness overseas. Mr. Heath outlined the action he thought other countries might take and warned what would happen when our exports started dropping. There would be an increasing number of British Leyland situations, and the Government would not be able to support all of them. Nor would the clearing banks be able to do much more than they were already doing. At the moment the Arabs were prepared to invest in this country because our high interest rates were worth the risk, but there was always the danger that they would stop doing so.

Mr. Prior and Mr. Whitelaw thought that if the Government asked for a further subsidy on bread this should be opposed. The initial subsidy was to offset the increase in world cereal prices, but the next increase in the price of bread would be due to the bakers' wage increase.

Mr. Heath said that Mr. Channon should be asked to prepare a paper on commercial rents.

Mr. Carr said that he thought the Opposition should maintain the gravity of its warnings and continue to press the line taken during the election campaign for a stabilisation programme for three or four years, without going into detail.

The meeting adjourned at 6.25 p.m.