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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

STRATEGY PROPOSALS

Memorandum by the Chancellor of the Exchequer

Colleagues on E Committee have already discussed a previous report from MISC 14 (E(79)42 and E(79) 13th Meeting Minutes) on the 'priority' strategy items and Annex A to this note sets out the present position on those. This note is concerned with the remaining proposals originally put forward by Ministers which were not selected for the first batch. It is important to remember that the distinction we made between priority and other items was based primarily on the speed with which one might hope to get some results. It does not imply that the items in the second batch are less important.

2. Of this second batch, some of the proposals originally made by Ministers have been subsumed with work in hand on the priority items, or into the campaign to influence public attitudes which is being co-ordinated by the Paymaster General. There remain some 43 items and Annex B to this paper lists these, grouped according to the main policy area to which they are relevant, together with a brief indication of the scope (if any) which we see for a more active government role.

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3. Out of these we have selected 7 issues which in our view:

- (a) are of particular importance;
- (b) deserve to be given high priority in the immediate future;
- (c) could respond (whether the main action point lies within or outside government) to a strong government lead.

We invite colleagues on E to discuss whether (i) they agree with our selection, and (ii) they have ideas for getting better results. The following paragraphs consider these selected issues in turn.

I. Education, training and industrial needs

4. We believe this is an area of great importance. In recent years there has been greater readiness to recognise the links between education, training and industrial needs. But impetus needs to be maintained, and, if possible, strengthened. As we see it the most important opportunities in the immediate future are:

(a) The Finniston report on the engineering profession has been received and is soon to be published. The prime agents for implementing many of its recommendations will be individual firms, but the government will be expected to give a strong lead, and its recommendations need to be urgently considered, including those concerning statutory registration, changes in patterns of educational and training provision (which may also involve changes in allocation of resources), and the setting up of an Engineering Authority. We cannot prejudge our response to those proposals; but the Secretary of State for Industry should bring the relevant issues forward for collective decision as soon as possible.

(b) Making education more relevant to the world of work should continue to be given high priority, particularly

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in (i) forthcoming discussions with local education authorities and others on a 'core curriculum' and (ii) changes in the pattern of examinations at secondary level. Similar considerations apply in Scotland where the government has to respond to the Munn and Dunning report (on the curriculum and examinations respectively).

5. On highly qualified manpower, work in hand to improve information on present and future manpower should be urgently pursued, and regular summaries published (as a guide for industry, the education system and government).

6. Where a clear mismatch between the stock of highly qualified manpower and short-term needs emerges special programmes should be considered (on the lines of the microprocessor awareness programme) with specific funding if required.

7. On the employment of women, initiatives to break down adverse attitudes to the deployment of women (particularly those with high potential) in non-traditional careers (e.g. management or engineering) should be pursued.

8. On apprenticeships, we believe that restrictive rules and widespread resistance to 'dilutees' are a major obstacle to the development of a more flexible and adaptable workforce. The present very low age bar for apprenticeships and the emphasis on time-serving rather than standards are quite unjustifiable in current circumstances when an increasing proportion of brighter children are staying on beyond school leaving age. This system restricts to early school leavers the opportunities to obtain skilled status and bars later mobility from unskilled to skilled status. Despite efforts being made by the EITB, and other ITBs, and through MSC Training for Skills programmes and TOPS, little progress is being made. There is a case for publicising Ministerial concern and for making clear our strong backing to all efforts currently being made. We have however so far been unable to identify practicable new options for tackling the problem. The MSC is carrying out a radical review of the Industrial Training

Board system, which will traverse most of the problems. The presentation of the Commission's report next summer to the Government will provide an opportunity for us to return to the subject.

9. We also note that the CPRS expects to present its work on education, training and industrial performance, later this month. We suggest that this report should be considered in the first instance by MISC 14, enlarged for the purpose to include the Secretaries of State for Employment and Education.

#### II. Incentives to Work

10. A report on incentives, with particular reference to the lower paid, has already been commissioned and should be available early in the New Year. We have asked that this report should cover the stricter operation of benefit rules, including the scope for further measures to cut down on malingering.

#### III. Redundancy Payments

11. In some cases the present arrangements for redundancy pay seem to be producing perverse results. Employees may not be concerned about the collapse of their company because of the level of expected redundancy payments. Where redundancy payments are set above the present statutory level (as is common among larger employers in both the public and the private sectors) the balance between long-term benefits in securing staff reductions and immediate costs, needs careful consideration. We suggest that officials should be asked to study these issues and to report as soon as possible.

#### IV. Financial Management of Companies

12. We believe it is in the public interest that inflation accounting (more strictly current cost accounting) should be widely adopted in both the private and public sector as soon as possible. Historic cost accounting tends to create a 'money illusion' both for management (distorting decisions on resource

allocation and investment policy) and unions. (It encourages employees and unions to press for wage claims unrelated to real profits, and employers to believe that they can be conceded.) We have asked the Official Steering Group on Accounting for Inflation to bring forward proposals urgently to the Ministerial Sub-Committee on Economic Affairs (E(EA)) on how the introduction of current cost accounting could be speeded up.

13. We think there are two other measures, both supported by the Bank of England, which could help to improve the financial management and performance of companies. First, savings institutions should be actively encouraged to take a greater interest in the companies in which they invest. Second, the appointment of non-executive directors on a wider scale could contribute to better company performance. We recommend that Ministers (and officials) should take any opportunities to support movement in this direction, and also that I, together with the Secretaries of State for Industry and for Trade, should seek an opportunity personally to make our support clear to the Chairman and members of the Institutional Shareholders Committee.

V. Small Firms

14. We attach considerable importance to the stimulation of small firms. Individual Ministers and Departments should bear their needs closely in mind in running and developing particular policies and programmes. Several of the 'priority' items will benefit small firms in the fiscal field and as employers. Our recommendations here relate to non-fiscal matters.

15. There have been a number of initiatives by large firms, often with the co-operation of local authorities, to support the creation of new enterprises. We recommend that the Government should do what it can to encourage further ones (using the regional organisations of DOE and DOI). The formation of local enterprise trusts, in which local firms, Chambers of Commerce, and other organisations come together to assist would-be entrepreneurs has already begun in some of the larger cities, with encouragement from DOE and DOI.

The Secretary of State for Employment has suggested that local enterprise trusts be encouraged more widely (MPs could possibly help to promote them), and we have asked the Officials Group (MISC 15) to consider this further.

16. There may be scope for further Government initiatives on the supply of sites and premises for small firms. DOE has undertaken to give greater emphasis within the Derelict Land Grant programme to preparing sites for development especially in inner cities, where many small firms are concentrated. The DOI is sponsoring a consultant's study on the availability of premises, and the DOE has already received work on the potential and problems of the use and renewal of older industrial buildings in the inner city. We have asked that the conclusions of these studies, with recommendations for action if appropriate, be put to Ministers as soon as possible.

VI. Public Purchasing Policy

17. International constraints apart, there are at least two important issues on public purchasing policy. The first is the reconciliation of getting best 'value for money' on the individual purchase with the objective of promoting United Kingdom industry. The second is whether the specifications and standards required in certain major public purchasing operations (particularly in the nationalised industries) take sufficient account of the supplier's other market opportunities, including export. Work is in hand on both these issues. The Prime Minister has asked the Treasury and DOI to submit a paper jointly to E Committee and a working party of the Advisory Council for Applied Research and Development, which has been reviewing research and development in support of public purchasing, is due to report at the end of the year. We think that it is desirable that the Treasury/DOI paper should be brought before E as soon as possible, and that any relevant recommendations of the ACARD Working Party, when it reports, should be brought forward for consideration without delay.

VII. Collaboration between public and private sectors on exports

18. We recommend that the DOT (through its representation on the Nationalised Industries Overseas Group or otherwise) should give

priority to its efforts to achieve better collaboration between public and private sectors, particularly in the case of railways and airports, where there are major opportunities for United Kingdom export business over the next few years. Other departments, who have opportunities to promote better collaboration between public and private sectors in achieving export business, should also give priority to this.

Points for decision

19. We invite our colleagues on E:

(a) To agree that, so far as government action is concerned, the most important of the second batch of strategy proposals are those discussed above;

(b) to endorse the specific recommendations for action or further work which we have made on these items in paragraphs 4-18 above;

(c) to note the current state of play on those items in the first batch of strategy proposals which called for further work (Annex A); and

(d) to endorse other proposals for action which we have made in Annex B on items in the second batch of strategy proposals.

H.M. Treasury  
11 December 1979

(G.H.)

Progress on earlier strategy items

This note reports the current position on the 'priority' strategy proposals which E considered in October. The reference letters are as in the conclusions of E(79) 42 and the Minutes of E(79) 13th Meeting, Item 2.

- a. Review of planning procedures. This was remitted to an Official Group, MISC 20, whose report for E(EA) should be available by Christmas.
- b. Goods Vehicle Licensing. Department of Transport officials have prepared a note recommending no further action. This has been put to the Official Group, MISC 15, and a report to MISC 14 will be made shortly.
- c. Different approaches to reducing restrictive labour practices. The CPRS report should be available about mid-January.
- d. Reducing nationalised industry monopolies. Work is being co-ordinated by the Treasury-chaired Official Committee on Nationalised Industry Policy who will report back to MISC 14.
- e. Contracting out of Public Sector Services. Work is being co-ordinated by the Department of the Environment (Local Authority Services) and the CPRS (rest of the Public Sector). Both will be reporting to the Secretary of State for the Environment before Christmas. He will subsequently report to MISC 14.
- f. Biases against investment in productive assets. A Treasury-chaired Official Group is due to produce an interim report early in the New Year on any items which might be appropriate for legislation in the 1980 Finance Bill.
- g. Technical tax changes and other fiscal and tax measures to benefit small firms. The Treasury-chaired Working Party is about to report to the Chancellor, who will be bringing a paper to E very shortly.
- h. Incentives for the lower paid. Work on a quick interim report is under way and officials expect to report early in the New Year.
- i. Health and safety at work. The Pliatzky report on Quangos will make some recommendations on the Health and Safety Commission. The CPRS expect to put the first stage of their report to MISC 14 in the Spring.

Other strategy proposals

This Annex is concerned with those strategy proposals originally put forward by Ministers which were not selected for the first batch. Some of these proposals have been subsumed with work already in hand on the 'priority' items. They include proposals on employee share options, company tax and depreciation provisions, the role of the HSC, and competition policy. Others have been subsumed into the campaign to influence public attitudes which has been co-ordinated by the Paymaster General. Collective decisions have already been taken on the future of the nuclear power programme (with which one of the proposals was concerned). This Annex lists the remaining 45 items, grouped according to the main policy area to which they are relevant. Items which are starred are those which are discussed in the main report (above). In the case of the other unstarred items, the Annex indicates briefly the scope (if any) which MISC 14 sees for a more active government role. Where the MISC 14 review suggests that appropriate action has been taken, that no further specific action seems necessary or that developments already in hand seem adequate, this is briefly indicated.

I. LABOURa. Education, training and skills

\*Item 1. Review of training arrangements and their effectiveness

\*Item 2. Status of engineers

\*Item 3. Industry and education: specific programmes/grants to relieve known shortages

\*Item 4. Industry and education: the curriculum

\*Item 5. Encourage able highly qualified women to enter industry

b. Work incentives

\*Item 6. Clamp-down on malingering

Item 7. Examine the Truck Acts. MISC 14 doubted whether it would be worthwhile at this stage to initiate a full-scale review of the Truck Acts. The main issue is whether employers should be allowed to pay wages to manual workers other than in cash without having to get consent from individual employees. Cash payment imposes additional costs on banks and employers. But legislation would be opposed by the trade unions. MISC 14 favour as a first step discussions in NEDC on improved methods of wages payments. However this item raised the more general question of discrimination and conditions of service between white collar and blue collar employees. This is a wide field and it is difficult to be sure how government can best contribute to change. Nevertheless it seems possible that different working practices in competitor countries may be a factor in the success of their industries. MISC 14 recommends that officials should be asked to consider further how a study of these issues might best be carried forward. To narrow the problem to a reasonable scale, officials might make proposals for an examination of a sample of private sector companies known to operate with little discrimination in working conditions, and for comparison, the practices in the Civil Service, and in the steel industry as an example of the nationalised industries.

\*Item 8. Reduce the discouragement to women to take technical and industrial jobs where skills are in short supply. This links with items 1 to 5 (also starred).

c. Labour relations

Item 9. Government campaign to encourage higher productivity and better conditions at work.

Item 10. Measures to improve trade union structure

- Item 11. Election of worker representatives to boards of pension funds
- Item 12. Visits by shopfloor workers to competitors abroad
- Item 13. Improve management morale by discouraging compromise in industrial disputes. Steps to encourage higher productivity and improve management morale are already in hand (through our general policies, our attitudes 'campaign', recent NEDC discussions etc). Important as other proposals are, we do not think the government has a major role to play. These proposals do however raise the more general issue of the problem of getting the government's message across effectively to the right target audience. We recommend that the Official Group, MISC 15, should consider further, in consultation with the Paymaster General's Office, whether any better means could be devised for disseminating information on good management practices.

d. Employment protection

- Item 14. Powers for industrial tribunals to award costs to discourage frivolous cases. Tribunals already have the power to award costs against a party bringing frivolous or vexatious complaints. The Secretary of State for Employment is bringing forward legislation to extend these powers to cover parties bringing a case 'unreasonably'.

- \*Item 15. Good redundancy schemes in overmanned nationalised industries

e. Mobility

- Item 16. Examine labour mobility in depth. Housing impediments to mobility have already been considered in the first batch of strategy proposals. MISC 14 noted that MSC and CPRS has some work in hand on geographical mobility which should be completed by the end of the year. There seems no scope for additional work at present.

II. CAPITAL

a. Industrial policy

- Item 17. Define what government wants from little Neddies and sector working parties. NEDC provides unique tripartite machinery. It is important to use it effectively. Our objective must be to ensure that the EDCs and the SWPs follow a realistic and down to earth work programme (including productivity, manpower planning, restrictive labour practices and training/education requirements) and reach specific conclusions and recommendations which can

act as a catalyst for action and change by management and work-force at company/plant level. Where this objective is not being met, the SWPs should be stood down. Some pressure has been applied by the recent review (as a result of which 17 EDCs/SWPs have been put on six months' probation and 7 disbanded or suspended). This pressure should be maintained.

Item 18. Carry forward work in hand on import substitution, product development and marketing. Better product development and improved marketing by United Kingdom companies are crucial if exports are to be increased and import penetration to be resisted. The main responsibility lies with industry. Government has been contributing, or can contribute, towards these aims in various ways. MISC 14 considers that more work needs to be done to consider whether the existing government contribution is effective and how it might be made more effective. One aspect is support for product development and R and D. There is scope for government action in encouraging more inward investment, and a case for country of origin marking of goods solid in the United Kingdom (although the issue has arisen in the context of consumer protection) is being examined. DOI officials are discussing with the Marketing Society and others the scope for improving United Kingdom marketing standards. We have asked officials (DOI in consultation with other departments as appropriate) to review this area further and report back.

Item 19. Phase out National Insurance Surcharge. Decisions on NIS are being considered separately.

Item 20. Encourage better manpower planning by firms. Both MSC and ACAS already seek to encourage better manpower planning, generally by meeting requests for advice. See item 3 for recommended publication of better information on highly qualified manpower.

b. Regulatory constraints

Item 21. Reduce oversensitivity to environmental considerations. There is no easy way to reduce oversensitivity to environmental considerations. Where highly controversial issues are involved (eg certain nuclear developments), the general policy issues should be brought into public discussion on an informal basis well in advance of formal public consultation on particular proposals. The Department of Energy has suggested examination of whether, without overcomplicating the system, local enquiries could be limited more closely to local issues, leaving wider policy issues to be considered in some

other forum. We have asked MISC 20 (the Official Group looking at planning procedures) to consider the merits of this proposal further, including options for the wider forum. We noted however that care is needed to ensure that too dismissive a line on environmental consequences of industrial development does not lead to increasing public concern and more support for environmental lobbies.

Item 22. Role of the CBI in the HSC and MSC. There is scope for improvement in CBI's HSC and MSC representation. The Secretary of State for Employment has already discussed MSC membership with Sir John Methven prior to CBI nominations from 1 January 1980 being made. We recommend that he should also urge the CBI to ensure that arguments of industrial efficiency are given full weight in HSC discussions.

Item 23. Remove the need for separate application procedures for industrial estate corporations and investment grants. RDG is not paid to the English Industrial Estates Commission (a Crown body): but purchasers of EIEC factories in assisted areas can claim RDG for cost of buildings under normal rules. The investment grant scheme was discontinued in 1970.

c. Competition policy

Item 24. Remove or reduce possible encouragement to merge caused by present tax system, and consider removing tax and other obstacles to companies which want to demerge. An interdepartmental working party under Inland Revenue has reviewed the influence of tax on mergers and concluded that, with some limited exceptions, tax provisions are neutral. The Revenue, in consultation with DOI and DOT and the City Tax Committee, is currently reviewing tax provisions which may discourage demergers in time for legislation (if appropriate) to be considered for the 1980 Finance Bill.

d. Finance

Item 25. Extend favourable treatment for gilts to long-term corporate debentures. This will be considered by the Treasury-led Group on taxation and savings, but early results are not expected.

Item 26. Eliminate distinction between earned and unearned income. Treasury Ministers will examine before the 1980 Budget the case for retaining the investment income surcharge (in conjunction with the review of capital taxes).

Item 27. Stimulate large and small shareholders to play a proper role in company performance. We do not see scope for government action to stimulate the involvement of small shareholders. But we consider that greater involve-

ment of the institutions in the companies in which they invest should be actively encouraged (although we understand that the DOT consider that the institutions already do about as much as they can, and doubt whether a public campaign would be effective). Specifically -

- i. the Chancellor of the Exchequer, together with the Secretaries of State for Industry and for Trade, should seek an opportunity personally to make this view clear to the current Chairman of the Institutional Shareholders' Committee and his three fellow members.
- ii. Ministers generally should make it clear in speeches that the government expects institutions to play an active role in improving the performance of companies in which they invest, and should take every opportunity (meetings, lunches etc) to urge companies and institutions to review their relations with one another.
- iii. The Bank of England should be supported in its efforts to persuade institutions and companies of the benefits of institutional involvement.

Item 28. Promote use of non-executive directors to encourage better management practices. MISC 14 believes that the appointment of non-executive directors on a wider scale could contribute significantly to improved company performance. Legislation to require such appointments would be counter-productive. As with item 27 above, a campaign of persuasion is needed. Specifically -

- i. the Bank should be encouraged to maintain and develop its efforts to persuade company chairmen and their advisers of the need to release able and experienced people to act as NEDs;
- ii. Ministers in their public speeches and in their contacts with companies, the clearing banks (and other intermediaries with close knowledge of small or medium company affairs) and the financial institutions, should aim to promote understanding of the NEDs' role, and urge their appointment should be considered and, when made, fully exploited.

MISC 14 suggests that officials should be instructed to follow a similar line, in their own contacts, to that set out above in items 27 and 28.

Item 29. Dismantling of exchange controls. Exchange controls have now been abolished.

\*Item 30. Accelerate the introduction of inflation accounting to help destroy 'money illusion'

e. Small firms

\*Item 31. Encourage large firms to help small firms. Various kinds of relationship are possible - help stemming directly from a business relationship, help to firms of which a large firm has no direct relationship, help by large firms participating in the work of agencies promoting the development of small businesses, and initiatives by financial institutions. Examples of initiatives are those by ICI Mond, Shell Small Business Unit, Action Resource Centre, Local Enterprise Trusts, London Enterprise Agency, Midland Bank's Independent Business Unit and Area Banking System, Barclay's Small Firms Advisory Service etc. The government's role is mainly to be active in fostering links with its own regional services (DOE and DOI) and in responding to requests for assistance.

Item 32. Slant Government contracts in favour of small firms. The paper on public sector purchasing being prepared for E Committee by the Treasury and DOI will discuss this.

Item 33. Initiate a dialogue with local government on stimulating new and small businesses. A start has been made by the Secretary of State for the Environment in two recent speeches.

Item 34. Involve leaders of ethnic minority communities in dialogue on scope for doing more to harness immigrant entrepreneurial skills. There is no solid evidence that ethnic minorities have special difficulty in setting up businesses, and no requests for special treatment have been made. There seems no need for government to take special action over and above their help for small businesses in general.

\*Item 35. Inadequate supply of premises and land, particularly for small firms.

### III. PUBLIC SECTOR

a. Effects on private sector of nationalised industries and of public purchasing policy

\*Item 36. Increase enlightened clientship by public purchasing policy

\*Item 37. Effects of arbitrary technical standards imposed by nationalised industries

\*Item 38. Consider how public sector agencies can help private sector in international trade

Item 39. Raise non-tariff barriers to imports by public sector staff cuts to increase administrative delays. There seems no scope for implementing this proposal. Staff cuts leading to delays at customs would not amount to a significant non-tariff barrier to imports without damage to export trade as well. Delays in issuing import licences or in foreign vehicle certification would be quickly challenged and impossible to defend successfully.

b. Public sector efficiency

Item 40. Examine possibility of involving city and financial institutions in building universities, polytechnics etc. There is scope for more collaboration between industry and higher education in provision of finance for specialised buildings, provision of equipment for science and technology departments, endowment of chairs (eg in engineering or business studies) etc. This is most likely to flow from closer links generally between industry and education (see items 1 to 5 above), but Ministers (in speeches or otherwise) can try to encourage the private sector to give help in this way.

Item 41. Deprivilege the civil service and 'Academia'. The allowance to be made for inflation proofing of pensions is being urgently studied with the aim of reaching decisions before the next PRU settlement (E(79) 14th Meeting, Item 4).

In addition we recommend -

- i. that Ministers should ensure that their own Departments made a rigorous effort to identify inefficient staff, and are prepared to tackle each case with the procedures already available (including premature retirement);
- ii. that DES, without making radical changes in the traditional tenure arrangements (for existing or future staff), should continue to encourage more short-term appointments for newly appointed staff in both university and maintained sectors, and the wider use of premature retirement with a view to increased efficiency and promoting a better age structure. (The present age structure in universities makes this an important medium-term issue.)

Item 42. Diminish power of civil service unions. We doubt whether the benefits to be achieved by withdrawing the existing national facilities agreement for civil service unions, or charging for the collection of union dues via pay packets, would justify the possible loss of union co-operation in more important areas. But we recommend that CSD should ask departments not to go beyond a narrow interpretation of the facilities agreements.

#### IV. EDUCATION OF THE PUBLIC

Item 43. Seek to change public attitudes to Europe. Most of the original proposals for education of the public have been subsumed by the exercise under the Paymaster General. But this was not designed to cover attitudes towards Europe. We believe that more could and should be done to improve the Community's image in the United Kingdom. We have considered a paper from the FCO arguing in favour of a two-pronged strategy under which securing solutions to the most serious problems presented by our Community membership (notably the Budget, CAP and Fisheries) would go hand in hand with identifying and publicising positive Community measures (whether already in the pipeline or not) which could be seen by the man in the street as useful and practical contributions to his own quality of life. The FCO note provided a list of illustrative examples. The timing of any initiative in this area would need to be carefully considered, but we believe that there is a good case for contingency planning now so that a campaign could be launched at an appropriate time. We recommend that the general principle of this strategy should be endorsed, and that, subject to this, officials should carry out a detailed examination of the FCO's proposals and report back to OD(E) in due course.