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MOST CONFIDENTIAL RECORD
TO
CC(84) 5th Conclusions

Thursday 9 February 1984

TRADE UNION POLITICAL LEVY

THE SECRETARY OF STATE FOR EMPLOYMENT reminded colleagues that the Conservative Party 1983 General Election Manifesto had drawn attention to concern about the way in which the right of individual trade union members not to pay the political levy operated in practice. It had set out the Government's intention to invite the Trades Union Congress (TUC) to discuss the steps which trade unions themselves could take to ensure that individual members were freely and effectively able to decide whether or not to pay the political levy; and indicated that, if trade unions were not willing to take such steps, the Government would be prepared to introduce measures to guarantee freedom of choice. The Trade Union Bill currently before Parliament required trade unions to hold ballots before establishing political funds and subsequently membership every 10 years if they wished to continue operating them. Pending the outcome of discussions with the TUC, however, it made no provision for contracting-out to be replaced by contracting-in. He had been discussing this matter with the General Secretary of the TUC and the Chairman of the TUC's Employment Policy Committee (EPOC). The General Secretary was clearly anxious to improve the trade unions' general working relations with the Government and had been making considerable efforts to ensure a satisfactory voluntary undertaking on the political levy. As a result a draft agreement had been prepared which the General Secretary wished to put to EPOC for its approval on 15 February. If it were approved, he would then formally consult the Secretary of State for Employment about its contents, so that the Government's immediate reaction could be made known when the document was put before the TUC General Council the following week. He felt that the terms of the draft agreement were the best which the Government might have been expected to secure under a voluntary agreement. It required the unions to review existing procedures to ensure that adequate information and guidance was given to members about their right to contract out and that effective action was taken to remove any obstacles to contracting out. If the General Council approved it, all trade unions would be expected to comply with its terms. He considered that the agreement could be accepted by the Government as a basis for agreeing not to legislate on contracting-in. In view of the delicate timing considerations, it would be helpful to have colleagues' agreement now, so that he could indicate the Government's position if the General Secretary was able to secure the approval of EPOC on 15 February.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that a voluntary agreement would be preferable to legislation, provided that its terms were satisfactory and that it was honoured by the trade unions. They were content to accept the Secretary of State for Employment's judgment that an agreement on the lines indicated was acceptable. It was clear, however, that it was not sufficient to obtain only the formal endorsement of the TUC General Council for it. If, for example, the leaders of two or three major trade unions indicated that they would not comply with the agreement in practice, or remained silent initially but did not actually comply later on, the agreement would be of little value. It would therefore be unwise for the Government finally to abandon at this stage the option of legislating, even though legislation on this subject, which would affect the funding of the Labour Party, would create great unease and should not be entered into lightly. The attitude of the TUC so far justified proceeding as the Secretary of State for Employment proposed, provided that it was made clear that the Government expected its own pledge of good faith to be met with equal good faith by the trade unions, and that the Government would continue to reserve the right to legislate if the voluntary agreement broke down in practice.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Secretary of State for Employment to be guided accordingly in his further discussions with the Trades Union Congress.

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ECONOMIC STRATEGY

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(84) 5) on economic strategy.

THE CHANCELLOR OF THE EXCHEQUER said that the 1984 Budget would set the tone for the remainder of the present Parliament. The background was one of falling inflation and rising output. In both respects, performance in 1983 had been better than forecast. The prospects for the year ahead were encouraging. Output was expected to rise by 3 per cent, and inflation, after rising to about 5½ per cent in the early summer, to fall to about 4½ per cent by the end of 1984. Although the recovery had initially been based on higher consumption, it was now broadening to include exports and investement, both of which were expected to increase twice as fast as consumers' spending in 1984. There were, however, risks from external factors. First, the size of the United States budget deficit continued to exert upward pressure on interest rates. Secondly, a sharp fall in oil prices would be unhelpful to our balance of payments and tax revenues in the coming year. Domestically, the main risk lay in excessive wage settlements.

The Public Sector Borrowing Requirement (PSBR) in 1983-84 was still expected to show an overshoot of some £1.8 billion compared to the 1983 Budget forecast of £8.2 billion. It would be important for market confidence and the credibility of the Government's economic policy that the overshoot should not be carried forward. As a minimum, the Government must be seen to be returning to the path set in the 1983 Medium Term Financial Strategy (MTFS), which envisaged a PSBR of £8 billion for 1984-85. There were indeed arguments for aiming at a lower figure. 1984-85 was the peak year for North Sea oil revenue, and could therefore be expected to feature a low PSBR. Asset sales, which had smaller effects on interest rates than a reduction in public expenditure, would play an unusually large part in reducing the PSBR. It would certainly be wrong to provide for a PSBR higher than £8 billion, and probably right to aim for a slightly lower figure. Fortunately, the fiscal prospects for 1984-85 had improved since his Autumn Statement; and the risk of tax increases being required in March was slight. He therefore expected the 1984 Budget to be broadly neutral; he would welcome the views of his colleagues on the appropriate balance between different taxes in that context. Looking further ahead, there was a prospect of worthwhile tax reductions in 1985-86 if the Government adhered to its published expenditure plans.

The continuing success of the Government's economic policies had confounded its critics and should have a good effect on expectations. Expectations would also be conditioned by the MTFS. The present MTFS expired in 1985-86. Figures should now be published, extending to 1988-89 and so covering the remainder of the present Parliament. The Government's ultimate objective should be price stability. This required monetary growth to be brought down, preferably without recourse to higher interest rates. It was therefore necessary to aim for lower Government borrowing. The Government had already decided on expenditure plans for 1986-87. The same real level of public expenditure should be used as the basis of the MTFS for 1987-88 and 1988-89. It would be made clear that this was only an assumption and did not pre-empt policy decisions, which would be taken in the usual way in future Public Expenditure Surveys.

In discussion the following main points were made -

a. There was general agreement that there was no case for a relaxation in fiscal and monetary strategy. Some members of the Cabinet argued that the Government's fiscal stance had in practice been more relaxed in the last two years than its rhetoric suggested, and so had contributed to the speed of economic recovery; and that it was unnecessary to treat the level of the PSBR, so long as it remained below the psychologically significant level of £10 billion, as crucial. Others, however, disputed this interpretation of events, pointing out that it could now be seen to have begun to increase as early as 1981. This underlined the need to continue to pursue the prudent policies which had secured the Government considerable credit at home and abroad. The Government's policies were succeeding, but were inevitably at risk from external events. Both factors counselled stability and caution in fiscal and monetary policy, on the lines suggested in C(84) 5.

b. Some members of the Cabinet considered that such resources as could be made available for reductions in taxation in 1984 should be devoted primarily to reducing burdens on industry, such as the National Insurance Surcharge. Although company profitability had improved dramatically, it was still extremely low and needed greatly to be increased. The United Kingdom depended on industrial and commercial enterprises for its economic future. Many of them were still in a parlous financial condition. Most members of the Cabinet, however, took the view that priority should be given to increases in the income tax thresholds, which were still too close to social security benefit levels. Poor wage-earners paid too much income tax. They should be helped, for both social and economic reasons. Moreover, increases in the income tax thresholds might have a useful effect in moderating pay settlements.

c. While it was in general undesirable to introduce more complexities into the tax system and indeed preferable to reduce them, there was a case for continuing to give encouragement to the development of small businesses and to the participation of employees in the future success of their companies, for example through share option schemes.

d. There was general agreement that the MTFS should be rolled forward as proposed in C(84) 5. It also seemed inevitable that this should be done on the basis of an assumption that public expenditure in real terms would be held at the same level in 1987-88 and 1988-89 as in 1986-87: it might be possible to give a range of assumptions, but this would reduce the effect on expectations, which it was one of the main aims of the MTFS to secure. Nevertheless, it would be important to make it clear in public that the assumption regarding public expenditure was only an assumption and did not pre-empt policy decisions.

e. Careful consideration should be given in the MTFS to forecasts of the "fiscal adjustment". Experience suggested that such forecasts tended to exaggerate the room for tax reductions and so built up expectations that could not in the event be fulfilled.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet overwhelmingly supported the Chancellor of the Exchequer's judgment, as set out in C(84) 5: in particular, they endorsed his judgment of the appropriate PSBR in 1984-85. He would no doubt take account of the views that had been put forward in discussion in reaching final decisions on the overall balance of his Budget and in considering particular tax changes. The Cabinet agreed that the MTFS should be extended to 1988-89. It should be based on the assumption that the real level of public expenditure would be the same in 1987-88 and 1988-89 as in 1986-87; but, as the Chancellor of the Exchequer had made clear, this was not intended to pre-empt the decisions that Ministers would take in due course on public expenditure plans in the annual Public Expenditure Surveys. Enquirers from the media about the Cabinet's discussion would be told that the Cabinet had considered the economic situation and the approach to the Budget, noting the firm prospect of continuing steady growth and low inflation and the importance of keeping effective control of Government borrowing.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer to take account of their discussion in preparing his forthcoming Budget.