



SECRET AND PERSONAL

Seen
Prime Minister
Econ. Pol.
J.R. Colling
23/3/82

Qa 05869

23 March 1982

To: PRIME MINISTER

From: J R IBBS

1. Before I see you on Wednesday it may be helpful if I provide a few observations that occur to me in the light of my two years as Head of the CPRS. I look at all these items against the Government objectives which I have summarised before, namely -

- (i) to create a vigorous and healthy free market economy;
- (ii) to create a society in which individuals are free and encouraged to make economic and other decisions for themselves while those most in need are protected;
- (iii) to improve defence and law and order;
- (iv) to obtain re-election for a further period of office in order to attain these objectives within ten years.

Economic Policy

2. It is certain that economic policy, together with the worldwide recession, has succeeded in bringing home the need to be competitive; there has been improvement not only in behaviour but also in attitudes, especially in the private sector. Managers are more determined in pursuit of efficiency; many workers have better understanding of economic realities. But belief in the existence of an easier way out persists, especially among trade unionists. Wishful thinking is difficult to change and it is hard to appear both realistic and simultaneously properly concerned about social aspects. Sensitive and effective handling of the economic message is therefore very important.



SECRET AND PERSONAL

Public Sector Disputes on Pay and Productivity

3. Many parts of the public sector lag behind in improving productivity and in appreciation of economic realities, as the current trouble with ASLEF demonstrates. I am convinced it is right for Government to avoid direct involvement in such disputes. But when a major battle occurs on pay or productivity it is very important to the Government that the management should prevail. Success will only come if the issue and timing are carefully selected and if the dispute is skilfully handled. At present the competence of some Nationalised Industries' Boards on this is questionable; and in this context the relationship with Sponsor Departments is also shaky. The handling of disputes must remain with the Boards, although at some point Government influence may be needed. I believe that, as these industrial relations issues which are central to the success of policy develop, it is important that in addition to the advice available from the normal Government machine you should have access to further well-informed and experienced views of the kind I have tried to provide from the CPRS.

The Miners

4. I continue to be apprehensive about future pay and other demands by the miners. High coal stocks will mean that a strike could be withstood for longer and to that extent the management can be rather more confident when bargaining. But miners with a strong sense of grievance would have the will to remain on strike for a greater period than is offered by any practical level of stock envisaged at present. In the foreseeable future it will never be safe simply to assume a confrontation can be "won". On any particular issue the first key judgement is whether it is one on which they would be willing to come out and stay out. Its nature and the extent to which they feel threatened will greatly influence their behaviour, and it is hard to judge how much their increasing affluence may have weakened the resolve they showed in 1926 or in the 1970s. I should like to emphasise the importance of planning ahead to next November (and to later negotiations), of not alienating moderate opinion among the miners, and of avoiding confrontation on weak ground of Scargill's choosing.



SECRET AND PERSONAL

The Desirability of Soundly Based Expansion

5. For the economy the point has now been reached where it is important to avoid conflict between the need for continuing improvement in competitiveness (which is essential) and the need to get some soundly based expansion which will benefit employment, social and political objectives. The CPRS Study on Unemployment aims to establish how the labour market can be made in practice to work better, including the lessons from Professor Minford's work, and what other steps could reduce unemployment without undermining the basic improvements in efficiency. I am convinced that entrepreneurship and innovation (which depend heavily on medium term confidence) are still less vigorous in this country than they need to be. This warrants special attention and goes beyond encouraging small businesses, on which a great deal has been done. The morale of manufacturing and service industry seems to me immensely important in achieving the objective of a vigorous and healthy free market economy.

Education and Training

6. The CPRS has repeatedly become involved in the question of education and training. The overall system in this country is not providing the attitudes and skills required to achieve a high productivity, high wage economy. More fundamental changes are needed than have so far been proposed, and this may well entail some infringement of what teachers have tended to regard as their prerogative. Quite apart from the needs of industry, the schools are a key area in which the attitudes needed for a healthy society are formed. Education and training is a subject on which I hope the CPRS will be able to provide some helpful long term thinking.

The Conurbations

7. Some of the main problems currently facing the Government are unemployment, industrial weakness, urban transport, inadequate education, and crime. These all tend to be concentrated in their most acute form in the older conurbations. These areas, where local government too has the greatest challenge but often appears least able to cope, are the testing point for some key policies. Perhaps a valuable insight will emerge from Merseyside. If not, further systematic study will be needed



SECRET AND PERSONAL

both on how to sharpen the effectiveness of policies and how to co-ordinate them and govern the areas. This is potentially a subject to which the CPRS should return, and on which its current work on central/local government is relevant.

Public Sector Management

8. There is a need for some fundamental rethinking on how to manage the big bureaucracies, namely the Nationalised Industries, the Health Service, the Civil Service, and local authority education and other services. Most suffer from an inadequate awareness of the needs of their consumers, and an absence of market forces; furthermore they have a sense of impregnability. With all of them Government is in effect into 'business' in a big way. But most Ministers and civil servants lack the management experience and skills to keep these enormous concerns moving in the direction of steady improvement. I am sure there is a need to press very strongly for greater management experience and skill in Departments generally.

The Nationalised Industries

9. Within the public sector I have been considerably involved with the nationalised industries. For them the greatest need is to secure top management of the highest quality. (There is no more important example than the next Chairman for the National Coal Board.) If a good Chairman of an industry is given reasonably clear objectives I remain convinced that in most instances much can be achieved. But the jobs have got to be made sufficiently attractive to command the best people, and obviously the catchment area should not always be limited to this country. Quality of management is the prime need and excessive intervention must be avoided. However, there are other helpful things that can be done and I believe that persistence in carrying through the recommendations in the CPRS Report on Nationalised Industries will pay off. I attach particular importance to increasing the amount of broadly based business experience in Departments.

Japan

10. So long as the main trading nations were broadly evenly balanced,



SECRET AND PERSONAL

each having a share of various types of resources and trading by roughly the same rules, fairly untrammelled free trade suited this country well. But Japan (and newly industrialised countries) pose a new threat if they pursue deliberate policies of taking established markets before we have the resilience or guile to counter them effectively, or the innovative strength to have secured our own position through new specialisms. There is a need to work out both how to resist them and whether we can learn from their skill in successfully focussing their resources. (They appear to be able to do this without making serious errors of choice or undermining the basic strength of their market economy.)

The Need for Long Term Strategies

11. Many of the problems in this short review appear rather intractable and this is partly because quick solutions are usually hoped for. Gradual progress through persistence may be the only way forward on some and this demands clear long term strategies. For this reason I believe there are opportunities for some useful long term thinking by the CPRS. The items you have included in our 1982 Work Programme, such as unemployment and the power of the state monopolies, are good examples. More long term thinking on some of the other problems would fit well with the review of public expenditure up to 1990 which the Chancellor has recently initiated.

The CPRS

12. A current problem for the CPRS is the high demand for its services. This is obviously good and indicates that its work is valued. But it means careful selection, particularly if space is to be found for longer term studies. I believe the credibility of the CPRS depends on its awareness of major current policy issues and its ability to make a constructive contribution on some of these. It is unique in its blending of outside experience in the Government machine. I therefore see a need for it to continue to bring earthy experience to even its longer term studies. But above all your support and interest in its work is crucial.

13. I am sending a copy of this minute to Sir Robert Armstrong.



Pythag medical foot print
must be destroyed

hard Selsden

Coals

George Turnbull,

Industrial People

LEAD

COMPILED