

Prime Minister

①

MR SCHOLAR

cc Mr Walters
Mr Mount O/R

*even that the
report is disappointingly
general and I
cannot see much point
in discussing it in
the present form
I agree we all
have a
point*

I think X is too harsh
and discouraging for CPRS.

Agree that they circulate for a
E(NI) discussion with a cover-note by

John Sparrow which distinguishes between
the more- and the less-action directed

CPRS REPORT ON THE STATE MONOPOLIES proposals, on the lines of
say, Y?

(attached)

We had a word about Alan Walters' note of 25 October, which I understand the Prime Minister has not yet seen; and I have discussed it with him. I am sure that Alan is right to advise the Prime Minister that this is an analytically weak and unimaginative report; and I think it would be wasted effort to circulate it as it stands to E(NI), and to invite sponsor Ministers to review the industries for which they are responsible, as proposed by John Sparrow. Too many of the recommendations cover issues with which sponsor Ministers have been grappling since the beginning of this administration, and yet another general review will not produce results.

But there is much in this report which could be useful, if it was more thoroughly analysed and separated out from the dross. It is in the nature of CPRS reports to cover, for the sake of completeness, a number of approaches which are unlikely to be promising - a new privatisation effort, for instance, or another campaign to change union attitudes. These tend to distract attention from quite a few suggestions which might prove fruitful.

I would like to suggest, therefore, with Alan's agreement, that the Prime Minister should respond to this report by asking the CPRS to reformulate their report, in consultation with the Departments concerned, concentrating on those proposals which offer most promise of leading to action which would reduce the power of the state monopolies; and that they resubmit the result in a few weeks, with a view to discussion in E(NI).

If the Prime Minister agrees with this, I think your note to John Sparrow should identify those of the CPRS recommendations which fall into this category. In our view, they are:

(i) ✓ Removing statutory or other barriers to entry. This has already been done in a number of industries; but the CPRS should say which others, such as postal services, are still protected from entry by new competitors.

✓ (ii) Establishing an Independent Regulatory Agency. As Alan Walters says, it is not the new bureaucracy but the criteria for its operation that matter. The CPRS should analyse the desirable criteria of regulation, and then explain whether that requires a new agency.

Y ✓ (iii) Splitting monopolies into regional corporations. This needs far more investigation to see what the effect would be and whether it would be desirable. At the Prime Minister's suggestion, the Department of Industry have already done some work on regionalisation of BT: the CPRS ought to do the same for electricity, coal and gas.

✓ (iv) Extending the practice of franchising and contracting out. This really does seem to provide an opportunity for introducing private sector management and for reducing union power, but the CPRS analysis is entirely on a level of generalisation. It would be helpful if they would provide particular proposals for particular industries.

✓ (v) De-centralising wage bargaining. This is already under active consideration in the context of the water industry. The pros and cons need to be explored thoroughly, and the possible applicability in other industries determined.

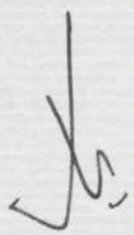
✓ (vi) Linking wages to performance. This might be part of the move, which the Chancellor has already suggested, away from an automatic annual pay round. But a good deal of work

needs to be done on the effectiveness of past productivity schemes, and whether they have actually been used to hide inflationary settlements.

Y ✓
(vii) Removal of the bankruptcy guarantee. We have come close to this in BR and BA, and it must be worth investigating - but the CPRS ought to be clearer about the costs; and a far greater analysis, with the Treasury's views, is required.

In each case, we think that what is required is not just a brief analysis followed by a series of recommendations, however specific, but a proper action programme. What is helpful to Ministers is a description of what needs to be done to bring about a particular change. That may be legislative reform, licencing arrangements, or even providing compensation. It is quite easy to say what we would like our state monopolies to become; the difficult part is getting from here to there.

I have talked to the CPRS about all this. The main difference between us is that they believe that more can be left to sponsor Ministers, to follow up on their own, than we think desirable. But there is no doubt they would welcome detailed feedback from the Prime Minister on a report in which they have invested a good deal of effort.



26 October 1982

CONFIDENTIAL

cc Mr. Mount
Mr. Vereker

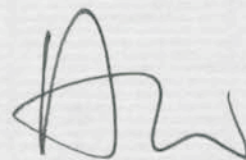
MR. SCHOLAR

CPRS REPORT ON STATE MONOPOLIES: 21 OCTOBER

I am afraid this is rather a disappointing Report. This is not because it is wrong. On the contrary, the vast majority of the recommendations are easy - too easy - to agree with.

The real point is that the Report lacks cogent arguments, incisive analysis and imaginative measures. So far as I can see, there are no new ideas. It is for the most part fairly conventional wisdom. For example, on the issue of regulation, the Report opts for something like the American system of regulatory agencies. But the agencies are mere bureaucracies. One needs to know the criteria of regulation to ensure that regulation should be effective and efficient. But no such criteria are spelled out or even tried for size. Yet this is the nub of the problem. Can we devise mechanisms, and preferably automatic mechanisms, that make them behave more and more like competitive industry? I think one can, and I have tried to interest DoI, for example, in the case of BT. You will find no suggestions in the Report.

For the most part one can nod and agree with the Report's generalities. But one must go on to say what is to be done and how is it to be done. At this stage the Report gives up and argues that this will vary from industry to industry, from Minister to Minister, from time to time, etc. Not much use I think.



25 October 1982

ALAN WALTERS

CONFIDENTIAL

cc JV

CONFIDENTIAL

Qa 06110

To: PRIME MINISTER

21 October 1982

From: JOHN SPARROW

CPRS Report on the State Monopolies

1. Earlier this year you asked the CPRS to examine how to reduce the power of the state monopolies, introducing increased competition where possible, and to study the United States system of regulatory agencies.
2. Our report is attached. The conclusions and recommendations are set out briefly in Section IV (paragraphs 80-89).
3. We have examined the development of state monopolies and, using four industries as case studies, we have concluded that the monopoly position has in many cases been created by Government. We have identified a number of current problems and concluded that these arise partly because the industries are monopolies and partly because they are state owned.
4. The bulk of the report describes possible remedies aimed at breaking up the power of the monopolies, and thus union power - for example by encouraging new competition, by fragmenting the industries and privatising the fragments, by regionalisation and by better regulation. The report thus puts forward various options for change; they are not mutually exclusive and could be complementary. Not all of the options will be applicable to each industry.
5. I hope you will agree that the report can be circulated to Ministers for discussion at E(NI). Our recommendation is that sponsor Ministers should be invited to review the industries for which they are responsible and make detailed proposals, based on the general conclusions reached and options put forward for change, and that they should consider proposals aimed at reducing the power of the unions in their industries. We have also recommended that Treasury Ministers should consider the proposals for removing implicit Government guarantees against bankruptcy

CONFIDENTIAL

CONFIDENTIAL

of state monopolies and for encouraging joint ventures between public and private enterprises. I suggest that Ministers be asked to report back to E(NI) in six months' time.

6. Privatisation proposals are due to be discussed at a meeting of E(DL) early next month, in a paper by the Financial Secretary with similarly a further review in six months. It might be helpful if our report could be circulated to Ministers before the E(DL) meeting.

7. I am sending a copy of this minute and the report to Sir Robert Armstrong.

JS.

Att

CONFIDENTIAL



bc JV

JP

10 DOWNING STREET

GOV. MACH.

From the Private Secretary

MR. SPARROW

CPRS REPORT ON THE STATE MONOPOLIES

The Prime Minister has now had a chance to study the CPRS report on state monopolies which was attached to your minute to her of 21 October. The Prime Minister has suggested that, before considering the circulation and forum for discussion of this work, there should be some revision of it, concentrating on those proposals which offer the most promise of leading to action which would reduce the power of the state monopolies. The Prime Minister suggests that the following seven of your recommendations most clearly fall into this category:

- (i) Removing statutory or other barriers to entry. This has already been done in a number of industries. Can you say which others, such as postal services, are still protected from entry by new competitors?
- (ii) Establishing an Independent Regulatory Agency. Here it is the criteria for its operation which most matter. Could you enumerate the desirable criteria of regulation, and then explain whether that requires a new agency?
- (iii) Splitting monopolies into regional corporations. Could you do the work on, say, electricity, coal and gas which the Department of Industry and yourselves have already done on this proposal in respect of British Telecom?
- (iv) Extending the practice of franchising and contracting out. Could you provide some specific proposals for individual industries?
- (v) Decentralising wage bargaining. The pros and cons of this proposal need to be explored thoroughly and the possible applicability in other industries determined.

/ (vi)

- (vi) Linking wages to performance. This might be part of the move, which the Chancellor has already suggested, away from an automatic pay round. But a good deal of work needs to be done on the effectiveness of past productivity schemes, and whether they have actually been used to hide inflationary settlements.
- (vii) Removal of the bankruptcy guarantee. Could we have more analysis, taking account of the Treasury's views?

The above are suggestions only. What the Prime Minister is looking for, I think, is a clear action programme, with a description of what needs to be done to bring about a particular change.

M. C. SCHOLAR

8 November 1982



(1)

10 DOWNING STREET

Prime Minister

CPRS Report on State

Monopolies

I'm afraid we haven't found
time to discuss.

Shall I ask J Sparrow to
take account of John's 7 points
^{yes}
before circulating? Would you
think a discussion of such an action
programme worthwhile?

MCS 5/11