

CPRS Work Programme

There are a number of decisions for you to take. I know that you are also at the present time thinking more generally about the future role of the CPRS. The decisions outstanding are:

1. John Sparrow asks for a small Ministerial meeting on the State Monopolies Report (Flag A). Ferdie Mount doubts (Flag B) if such a meeting will lead to action but does not himself suggest what to do next. John Sparrow's note, and the State Monopolies Report, seem to me to be far too general. For example:

i) What is the good of the CPRS telling you that they recommend "that a strategy should be pursued of changing union attitudes for example, by better and more consistent management communications, both to union leaders and directly to members? Ministers should be invited to agree ^{with} their industries' plans which will lead to improvements and changes along these lines" (paragraph 8(d) of the attachment to John Sparrow's note).

ii) Is it really true to say (as John Sparrow does in paragraph 3 of his note) that "it is only if Ministers accept the framework of the State Monopolies Report that sponsor Departments can be asked to carry out the detailed work that is now necessary". // Should not John Sparrow be invited to pick out the four or five of his proposals ^{*} most likely to lead to action (and where action is ^{not} already being taken through some other policy initiative) and to make clear proposals for action in each of these cases. There would then be some point in you - with a small group of the

/Ministers

* Ideally each of these should be issues where John Sparrow's expertise could be used.

Ministers most concerned, endorsing these proposals in principal and asking the CPRS to concentrate their efforts in acquiring the knowledge to work with Departments on each of these limited number of proposals. Detailed CPRS involvement in this way might prevent the inertia which Ferdie fears taking over. Agree to this?

2. Education.

Please see John Sparrow's note (Flag C). Agree to these proposals?

3. Trade Unions.

Please see John Sparrow's note (Flag D) and Ferdie's note on this (Flag E). When you earlier discussed this study with John Sparrow you agreed that it should be a two stage process. Quoting from my record of your meeting with John Sparrow, you agreed "that the first stage, which could begin immediately, would be a dispassionate comparison of the pattern of trade unionism in this country, with a view to arriving at a conclusion about the relative success of unions in different countries at achieving what their members require of them. The second stage was at the moment harder to discern but would be concerned with the lessons which might be drawn from this analysis for trade union reform in this country. The Prime Minister will wish to consider, after the first stage is completed, how the second stage should best be approached." It seems to me that John Sparrow's approach is running together the two stages and that the reply to John Sparrow should, as Ferdie suggests, separate out the two stages. Agree to this? Agree that the first stage should be done with a view to publication? Agree the other proposals in Ferdie's note?

4. Black Economy.

We have done nothing with this report, which you received in September. Do you wish the departments concerned

(Inland Revenue and DHSS principally) to get to work,
with the CPRS, on the programme suggested by the CPRS
report (summarised at Flag F)?

Duty Clerk
pp M.C.S.

19 November 1982

CHAPTER 6: SUMMARY AND LIST OF RECOMMENDATIONS

6.1 In Chapter 1 we describe the variety of the black economy and point out how widely it is active within our society. Although the black economy is as old as taxation itself, the scope for tax evasion has widened greatly over the last 30 years with the vast increase in the number of taxpayers. One view of the black economy is that it is a pure economy, undistorted by taxes and regulations, where entrepreneurs flourish - often to the customer's advantage. The opposing view points out that the black economy fails to pay its share of taxation despite enjoying the benefits; and the extra tax burden is passed to the white economy. White economy traders have good cause to resent their black economy competitors who enjoy an unfair advantage. We point out that many people sympathise with both points of view; there is much ambivalence on the subject. This ambivalence limits the Government's freedom of action. We eschew a blanket approach; our aim is to try to build on the black economy's good points (or at least learn its lessons) while improving worthwhile controls.

6.2 In Chapter 2 we look at the composition and size of the black economy. Most of it consists of tax evasion, mainly of income tax. Much of the evasion is done by companies and self-employed traders who under-declare their profits and by moonlighters who conceal earnings from second jobs. An extreme form of evasion is practised by 'ghosts': people who manage to conceal their trades entirely and so pay no income tax, and often no VAT or national insurance contributions either. Another smaller part of the black economy comprises people with undeclared earnings who claim social security as 'unemployed' - the 'working and drawing' phenomenon. Much black economy activity appears to be in services (eg retailing and household repairs) and in construction.

6.3 Of its nature the black economy defies direct measurement. Several indirect methods have been employed, using a variety of more or less tenuous assumptions and giving a wide range of answers. However we conclude that the black economy probably accounts for between 5 per cent and 10 per cent

of GDP, or between about £10bn and £21bn in 1981. It has probably grown gradually over the last 30 years, both in absolute terms and as a proportion of GDP, as the tax net has embraced more people and more transactions. As to whether the black economy as a whole moves counter-cyclically, prospering when the white economy is in recession and suffering when it expands, or pro-cyclically, there is no convincing evidence; we suspect that some components of it react in one way and others in the opposite way. If the black economy were to pay its full taxes there could be a reduction in the tax burden on the white economy of the order of £4bn.

6.4 To measure the black economy much more precisely would require an elaborate and controversial programme of random checks on the honesty of citizens which we do not consider justified. The working and drawing component is a special case where we believe better measurement is needed and could be obtained by less controversial methods.

6.5 In Chapter 3 we look at the good and the bad effects of the black economy on the whole economy and on society. In the sectors where it is active it can lead to lower prices and increased output; but on the assumption that the cost of the black economy's tax evasion is reflected in higher taxes on the white economy, the latter suffers higher prices and lower incomes. On this basis there is no reason to expect that real national income will be higher or lower as a result of the black economy, or that the overall rate of inflation will be affected either way.

6.6 We point out that because of its very freedom from taxes, form filling and bureaucratic interference the black economy could be regarded as a nursery for small vigorous firms. But these freedoms create distortion in competition because they are not enjoyed by all. Honest traders may be forced out of business by black economy competitors even if they work harder and more efficiently. The manufacturing sector as a whole is penalised (to the benefit of the services sector) and that part of it that faces international competition is disadvantaged. And profitable firms, starting up in the black economy, may choose not to expand in order to evade detection. Finally, and most obviously, disposable income is redistributed between individuals in a way that differs from that intended by Parliament and is regarded by many as unfair; and a unhealthy climate of deception is fostered.

6.7 In Chapter 4 we look at ways in which the energies of the black economy might be diverted to the white. Part of the black economy could be legitimised by changes in the tax and benefit system that would remove people from tax or reduce the marginal rates they face. But the scope for change here is limited. Large tax concessions aimed deliberately at sectors most deeply penetrated by the black economy would obviously have much greater effects but there is no good economic or social reason why these sectors should enjoy such favourable treatment, which would be at the expense of other sectors.

6.8 The black economy will also be affected by actions that the Government could take to increase the numbers and activity of small businesses and self-employed traders. Sometimes the effect will be to shift activity from the black economy to the white, eg when traders come out into the open as a result of the regulatory burden being lifted or in order to benefit from Government-financed schemes. More often the effect will be a net growth in the black economy, by virtue of the greater numbers of small businesses and self-employed traders who, as a group, are prone to evasion. Thus there need to be adequate measures to limit tax evasion but without stifling enterprise.

6.9 In Chapter 5 we look at the steps taken by the revenue and benefit departments to improve the effectiveness of their enforcement work. We suggest that further desirable improvements could be made at little or no cost, by action in four areas:

- a. deterrence by means of publicity;
- b. declarations of secondary earnings by moonlighters;
- c. exchange of information between Departments;
- d. co-ordination of work between Departments.

Our specific recommendations are listed in 6.11 below. The main aim of the suggested action is to improve the Departments' ability (both real and perceived) to detect evasion so that would-be black economy operators may be deterred at the outset and may choose to enter the white economy instead. In two of the areas (b and c) the suggested action would, among other things, remedy some situations in which some people may at present be evading tax or national insurance contributions more by accident than by design.

6.10 Sometimes better enforcement of the tax regime will suppress economic activity (though this will be offset by greater activity elsewhere, in the white economy, if its tax burden is lightened). This is an inevitable feature of any tax regime. Of their nature direct taxes reduce incentives to work and indirect taxes reduce demand. The question for government is how to spread the burden between different parts of the economy, having regard to incentive effects, among others. We note that Inland Revenue have studied the effect of enforcement on a small sample of self-employed traders where evasion had been revealed by investigation; in these cases there appeared to be no sign of a subsequent reduction in trading activity. We suggest that Inland Revenue conduct more studies of this kind, over a wider range of their enforcement work, in order to assess its disincentive effects and to consider the implications, if any, for tax policy.

Recommendations

6.11 Our recommendations are listed below; the paragraphs where they appear in the report are shown in brackets.

- a. Ministers should sanction an experiment to measure the extent of working and drawing either by a direct survey approach or by extending progressively the scope of Specialist Claim Control investigators (2.16).
- b. On black economy grounds increasing the earnings disregard for Supplementary Benefit for the long term unemployed is to be preferred to paying them the long term benefit rate (4.5).

- c. Recent and continuing improvements in the enforcement work of Inland Revenue and DHSS are to be endorsed and the cost-effectiveness principle should apply down the management line so that effort is concentrated on 'ghosts' and more serious benefit fraud where the concealed earnings are greatest (5.9 and 5.10).
- d. DHSS's plan to extend the scope of Specialist Claim Control work should be endorsed (5.11).
- e. In order to improve the deterrent effects greater publicity should be given to the Departments' successes in detecting cases of non-compliance; in particular consideration should be given to:
- i. Inland Revenue giving local publicity for some of their successes but without identifying offenders (5.17);
 - ii. Inland Revenue devising a scheme for publishing the identities of some of the more serious cases of tax evasion (5.20);
 - iii. Customs and Excise giving greater publicity to compounding cases (though not necessarily identifying individual offenders) (5.21);
 - iv. DHSS giving advance local publicity to the impending arrival of Specialist Claims Control teams, on an experimental basis (5.22).
- f. Inland Revenue should devise a scheme, for Ministers' consideration, in which moonlighters not now receiving tax returns would have to make a declaration about secondary earnings on a simple form (5.24).
- g. Ministers should consider the case for increasing the exchange of information between Departments, particularly information gained from investigations and routine national insurance and Schedule D data (5.29 and 5.31).

- h. If Ministers are attracted to any of the recommendations e. ii., f. and g., which would require changes in the statutes under which Inland Revenue operate, they should consider the case for these changes in the context of their consideration of the report of the Keith Committee, due later this year (5.16).
- i. The recommendation of the official Working Group for co-ordinating the work of national insurance Inspectors and PAYE Auditors should be accepted and implemented swiftly (5.35).
- j. The case for a full merger of national insurance Inspectors and PAYE Auditors should be re-examined after sufficient experience of the co-ordinated work scheme, (5.37).
- k. The Departments of Employment and of Health and Social Security should examine the demarcation between them of benefit fraud work (5.38).
- l. Inland Revenue should monitor the effects on taxpayers of its improved enforcement in order to assess how far it leads to a reduction in their activity and to consider the implications, if any, for taxation policy (5.41).
- m. The revenue and benefit departments should conduct more studies that assess the effects of compliance work on offenders' future behaviour and should exploit the results to improve the overall value of their enforcement work (5.43).

PRIME MINISTERCPRS REPORT ON THE STATE MONOPOLIES

I think there is a basic misunderstanding about the role of the CPRS which we have to sort out if the CPRS is to give us what we want. In fairness to them, we ought to explain in advance what we are looking for.

In the case of this report - as with the report on unemployment and, I suspect, with the forthcoming report on trade unions and with last year's report on the nationalised industries - the CPRS sees the desirable sequence of events thus:

- (i) CPRS analyses defects in the status quo and draws up general guidelines for putting them right;
- (ii) a Ministerial meeting endorses the guidelines and recommends follow-up by relevant departments;
- (iii) follow-up.

The trouble is that, except where the proposal is relatively painless and popular, the follow-up tends not to happen. The department, being usually given only brief two-line instructions, quietly buries them.

I fear this is happening now to some of the conclusions of your meeting on the CPRS unemployment study.

The Ministerial meeting does not have a detailed proposal before it (as it would usually have if the proposal came from a department). The Minister therefore returns to his officials, inadequately armed to deal with the usual objections (would cause upheaval, administratively impossible, already tried, etc).

The need to go into detail

The CPRS argues that its resources are limited and that action programmes can be carried out only by departments which have access to the information.

But the really valuable CPRS reports do already extract the necessary information from departments and do go into considerable detail - and often carry the day as a result.

The CPRS was surely devised as a collective counterweight to the power of individual departments. It ought to help Ministers to keep up their end of the argument by producing well-researched material to refute the departmental wisdom. It should be anti-bureaucratic, not an extension of the bureaucracy. General statements of principle and method are valuable to clear our minds about our objectives, but they ought, as a rule, to be supported by detailed case studies and detailed recommendations. This is often likely to be the only way to "smoke out" departments and force them to submit to the light of day their reasons for doing nothing.

The nationalised monopolies

It is worthwhile (I disagree with Alan Walters about this) to set down the prime obstacles to dismantling the nationalised monopolies. We just need to go a stage further and produce a series of specific schemes for contracting-out, decentralising and so on. In other words, the CPRS should follow up its recommendations itself, otherwise departments never will.

For example, paragraph 8(e) invites the Treasury to review its rules for private finance and joint funding in a more sympathetic light. We heartily agree that private sector disciplines are likely to bring benefits, even if those benefits may be hard to demonstrate. But there is now a considerable correspondence and volume of paper on this vexed question, and the Treasury is a tough nut to crack. Only a bold and intellectually sustained and concentrated effort is likely to make much progress.

If the CPRS is too short-staffed to do this effectively, then perhaps its work load should not be quite so heavy.

We suggest that you should indicate to the CPRS that their reports on general problem areas would be even more useful if they also contained specific and reasonably detailed recommendations for action.

fm

FERDINAND MOUNT

Qa 06146

To: MICHAEL SCHOLAR

From: JOHN SPARROW

17 November 1982

CPRS Work Programme - Trade Unions

1. Your minute of 15th October set out the position which had been reached at my meeting with the Prime Minister on that day.
2. We have now had discussions with the Secretary of State for Employment and have agreed with him a revised remit, together with background notes which expand on the topics the study will cover. We have done this in contemplation of a two stage study, as set out in your minute of 15th October and the present remit is concerned only with the first of those stages, decisions on how best to approach the second stage quite rightly being left until after the first stage is completed.
3. I should be grateful if you would confirm formally that the Prime Minister is now content with the remit and the proposed procedure.

P.

CONQUEROR

CONFIDENTIAL

THE UNION FACTOR

Remit for a Study by the CPRS

To examine ways in which trades unions affect UK economic performance, their relations with management, and how effectively they have benefited their members. The study would draw on international comparisons to assess the extent to which similar effects have been experienced in other countries.

CONFIDENTIAL

Questions for Examination

1. The first part of the study might examine recent trends in trades union membership and representation both in the UK and in Britain's major industrial competitors; the mix between industry based and general unions, and the relative changes in membership in declining industrial sectors, in the public services and in white collar areas. It should attempt to identify why people join unions, why unionism has spread, and forecast future trends.
2. The study should try to evaluate the influence of unions on economic performance, covering matters such as pay and industrial competitiveness, as well as trying to identify the effects of restrictive practices, lack of effective competition and the unwillingness of previous governments to tackle certain issues because of trades union resistance. This part of the study might try to assess the influence of the different types of unions and, again, an international comparison is relevant. In considering these factors, the parallel aspects of collective bargaining arrangements, weak industrial management, and the unions' political attitudes are clearly significant and should also be studied. There may also be other, less central, union activities, such as their representational role and work in health and safety and industrial training, that are relevant.
3. The study should assess how well unions have benefited their memberships' interests, both short and long term. Apart from the purely quantitative aspect of this problem, which would consider how well union members have fared relative to non-union members and to their counterparts in Britain's economic competitors, this part of the study should investigate how unions have adjusted to the changing economic and business conditions and to changing management attitudes.

Qa 06142



Prime Minister ①

Ayne ?

mes 16/11

16 November 1982

To: PRIME MINISTER
From: JOHN SPARROW

CPRS Work Programme - Higher Education

1. I have now had the opportunity to discuss with Keith Joseph and William Waldegrave the study on Higher Education which you have asked us to undertake as part of our continuing work in the general area of education and training. In the light of their comments, we have amended the remit very slightly to make it clear that our investigation will include some comments on Higher Education's research function as well as its teaching activities. We suggest that the final remit, which we have agreed with Keith Joseph, should be as follows:

"The CPRS is asked to examine whether the present system of higher education satisfies the national interest, and in particular:-

- to assess the extent to which it is susceptible to market forces and might become more market oriented;
- to determine how responsive its activities, including research, are to the employment needs of industry and commerce and how such responsiveness may be increased, and to see if lessons can be learnt from the further education system;
- to assess the efficiency with which it uses its financial resources and manpower;
- to investigate the financing of higher education and the scope for increasing the amount of financing within the discretion of consumers (students and employers), taking account of current Departmental work on student loans;

and to make recommendations".

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2. We are of the view, which is shared by Keith Joseph and William Waldegrave, that our work should be a wide-ranging and fundamental review; this, and the fact that time has gone by, lead us to expect to submit a report to you around February rather than, as we first hoped, around the turn of the year.

3. I am sending a copy of this letter to Sir Robert Armstrong.

R.

CONQUEROR

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ck JV

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Qa 06138

To: MR SCHOLAR
From: JOHN SPARROW

12 November 1982

CPRS Report on the State Monopolies

1. I attach a note which deals at least partially with the seven recommendations which you listed in your minute of 8 November.
2. I quite agree that what is needed is a clear action programme with a description of what needs to be done to bring about particular changes. It was with this in mind that we were hoping for a small Ministerial meeting to discuss the State Monopolies Report, because any such action programme will need considerable work within the sponsor Departments and is not something which the CPRS, with its limited resources, can hope to provide satisfactorily. When the study was set up in the Spring, Robin Ibbs described the procedure which we would follow in a minute (Qa 05864) of 26 March. In particular, he proposed that the aim should not primarily be to make detailed proposals relating to the specific industries selected for review but to use them as the main test cases for a general analysis which should provide pointers for Ministerial decisions on a number of industries.
3. That framework is contained in the recommendations of the CPRS Report. It is only if Ministers accept the framework that sponsor Departments can be asked to carry out the detailed work that is now necessary, and which needs to be done very much on a case-by-case basis. This was the method adopted for dealing with the Unemployment Report and it seems to me that it is the right way to go forward. We would, of course, hope and expect to be involved in the further work being done by the Treasury and sponsor Departments but, as the attached note shows, we do not have within our resources sufficient detailed knowledge to be able to set out the kind of detailed action programme that we all agree is now necessary.



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4. In the hope that the Prime Minister will agree to a small Ministerial meeting similar to that which she held to discuss the Unemployment Report, I suggest that the attached note, in conjunction with the conclusions set out in Section IV of the State Monopolies Report, will provide a brief on the matters which such a meeting should consider and the action required by Ministers.

5. I am sending a copy of this minute and the attachment to Sir Robert Armstrong.

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Att.



Gov Mach

ePRS work programme

Dec 1981

COMMISSIONER

RECOMMENDATIONS IN THE CPRS REPORT ON STATE MONOPOLIES REQUIRING FURTHER STUDY

1. Removing statutory and other barriers to entry

Barriers to entry exist in most of the state monopolies. We are aware of the following:-

- (a) Telecommunications. British Telecom's exclusive privilege to run telecommunications systems will be removed when the Telecommunications Bill is enacted. However licensing of operators by the Secretary of State will still be necessary. Present policy is that only Mercury will surmount this barrier. Although the advent of cable should offer the opportunity to open up the telecommunications market further to competition, this will be inhibited, if present policy is not amended. It is also present policy that BT only may provide the first instrument. Policy for the regulatory arrangements is currently being formed. Those licensed will have a statutory right to interconnect using BT's network, but on terms to be agreed with BT, as in the case of Mercury.
- (b) Posts. The Post Office has a statutory monopoly of letter mail, with certain minor exceptions.
- (c) Coal. In Britain virtually all the coal is owned and mined by the National Coal Board, which is empowered to grant licences to certain operators for very small deep mining operations and contracts out open cast mining. The barriers to major imports of coal are a matter of policy.
- (d) Electricity. The Bill proposed for this session will remove the legislative barrier to private sector interests supplying electricity as a main business. There will then be no statutory barriers to competition in the industry although the principles and methods for ensuring fair treatment of private operators of electricity have yet to be determined.
- (e) Gas. The Oil & Gas Enterprise Act removed British Gas Corporation's monopsony purchasing rights. Private sector interests can now supply gas to consumers using more than 25,000 therms or who are situated more than 25 yards from a gas main. The practical result is that supply to domestic consumers largely remains the monopoly privilege of BGC, whereas the industrial market is opened up to competition. The terms whereby private suppliers can use BGC's pipes for supply of gas are currently being drawn up.

(f) Water. The water authorities have a monopoly over all water used and have statutory duties to plan water resources, supply water (either directly or through the water companies), provide sewerage arrangements (often through local authorities) treat and dispose of sewage and prevent river pollution.

2. Criteria for Regulatory Agencies.

The annex to the report on state monopolies sets out some of the criteria for regulatory agencies. However these are general considerations. Our experience of considering the establishment of regulatory agencies for telecommunications and for cable operators has indicated that the detailed criteria vary depending on a number of features:-

- (a) the purpose of the agency (whether it is to constrain monopoly or create the right climate to encourage competition);
- (b) the extent or degree of monopoly (the possibility of substitution by other products or services and the indispensable nature of these products or services);
- (c) the structure of the monopoly (whether it is national or regional).

Inter-Departmental discussions on the establishment of the proposed Office of Telecommunications and the proposed new cable authority have raised difficulties over the future roles and involvement of the Office of Fair Trading and the Monopolies and Mergers Commission. Whether or not a significant number of new regulatory agencies are established for the other monopoly industries, detailed discussions will be necessary with the Department of Trade prior to the determination of detailed criteria for these agencies and their relationship with other existing (and proposed) regulatory mechanisms.

3. Regionalisation of national monopolies

A review of the prospects for regionalising electricity, coal and gas can only be done in conjunction with the Department of Energy, after they have carried out detailed preparatory work. In the case of electricity the Department is in the process of reviewing the structure of the industry and its privatisation prospects and is due to report by the end of the year. In the case of gas consultants are due to report in January 1983 on the organisation and structure as well as on efficiency. The Secretary of State agreed at the recent meeting of E(DL) to consider prospects for

privatising mainstream gas activities. The coal industry presents particular problems to which we referred in our report. We recommend that the Department of Energy should consider those steps which the National Coal Board is or could be taking to decentralise in advance of regionalisation at an opportune time.

4. Extending Franchising and Contracting Out

Because of our lack of detailed knowledge of the industries, we have difficulty in putting forward firm proposals for individual industries. Ministers have been reviewing the progress made and new initiatives for contracting out generally as part of an exercise initiated by the Prime Minister in July. We recommend that this initiative should take account of the conclusions reached in our State Monopolies Report for contracting out mainline operations and that it should be broadened out to include a review of opportunities for extending the practice of franchising. Our brief reviews of certain of the industries led us to believe that franchising and/or contracting out of some of the following operations might be possible:-

- (a) Electricity:- power station maintenance and possibly operation, meter reading, repairs
- (b) Gas:- repairs, meter reading
- (c) Posts:- sorting, Crown Office counter operation, delivery
- (d) Telecoms:- maintenance and repairs, research and development, cable laying
- (e) Water:- water supply, sewage treatment

In addition other more general areas such as computing, vehicle maintenance and repair, cleaning etc require examination in each of the industries.

5. Decentralising wage bargaining

The advantages and disadvantages of decentralising wage bargaining have been condensed in paragraph 63 of our report. Decentralised bargaining is only likely to be advantageous where the industry itself is decentralised or regionalised. The pros and cons will vary from industry to industry depending upon the history of labour relations. The Department of Employment may be best placed to explore the principles in detail, in consultation with the CPRS. However the possible applicability to the various industries can only be done by the Sponsor Departments, in discussion with their industries and in general consultation with the Department of Employment and the CPRS.

6. Linking wages to performance

The effectiveness of many of the past productivity schemes can be questioned, but in many cases they were introduced to avoid pay restraint. Detailed reviews are necessary for each industry to determine broad performance measures and more detailed measures which could form the basis of schemes aimed at bringing the prosperity of workers more closely allied to the success of their organisations. This can really only be done by the industry management with the Sponsor Departments' encouragement.

7. Removal of the bankruptcy guarantee

We would welcome a joint review being carried out by the CPRS and the Treasury into the feasibility and effects of removing the implicit guarantees against bankruptcy. This will be easier for nationalised industries which are not monopolies and for those competitive activities carried on by state monopolies which could be transferred to separate subsidiary companies. For the monopoly activities this will be possible and beneficial where the appointment of a receiver would facilitate restructuring and, if accompanied by regionalisation and privatisation, where an alternative operator is likely to enter the market and take over the operations. The possible knock-on effects on other nationalised industries, on the financial markets and on the costs of borrowing need to be taken fully into account.

Other recommendations

8. Apart from the seven recommendations listed above, we set out in our report other conclusions which we also consider require further study in relation to each of the industries. These are:-

(a) Privatisation of competitive activities

Ministers have already come forward with privatisation proposals to the recent meeting of E(DL) and have agreed to produce further proposals within 6 months. We recommend that these reviews should take account of the desirability of selling off parts of industries where competition is possible as a quicker way of confining monopoly power and of promoting effective competition;

(b) Restructuring industries by function and by region

Restructuring by region has already been commented upon above. Ministers should be invited to review their industries with a view to transferring non-monopoly activities (and monopoly activities by region) into separate subsidiary companies so that these operations can trade separately, on their own

account, and develop commercial arm's length relationships with other parts of the organisation. This will facilitate later privatisation and lead to a reduction in monopoly power.

(c) Privatisation of regional operations

Ministers have already endorsed, at the recent meeting of E(DL), the CPRS recommendation that the benefits of privatisation are likely to be greater if this is coupled with a policy which reduces monopoly power, for example by breaking up the national organisation into independent regional companies before privatisation. Departments' reviews into privatisation proposals should be taking account of this principle.

(d) Changing union attitudes

We recommended that a strategy should be pursued of changing union attitudes for example by better and more consistent management communications both to union leaders and directly to members. Ministers should be invited to agree with their industries plans which will lead to improvements and changes along these lines.

(e) Encouraging private finance and joint ventures

Past attempts to encourage private finance and joint ventures have typically been thwarted because of the requirement to show cost savings arising from this method of managing and funding activities. We recommend that such schemes should be encouraged even where it is hard to demonstrate immediate and tangible benefits since they are likely to bring intangible benefits to the nationalised industries in the form of private sector disciplines, commercialism and management practice. Treasury Ministers should be invited to review the rules for such private funding and to consider more receptively proposals which are made by Sponsor Departments and industries.

(f) Making cross-subsidisation explicit

We set out in our report the adverse features which we consider stem from hidden cross-subsidisation. We suggest that Ministers be invited to agree to our recommendation that cross-subsidisation should be made explicit or eliminated by separate subsidy of social loss-making services. We further recommend that Ministers agree to reviewing their industries with a view to bringing this into effect.

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CPRS work programme

Dec 1981

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