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E(82) 21st Meeting COPY NO 66

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 14 OCTOBER 1982 at 10.45 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for
Foreign and Commonwealth Affairs

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

Revised 15.10.82

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Items 1 and 2)

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services (Item 1)

The Rt Hon Sir Michael Havers QC
Attorney General
(Item 1)

The Rt Hon Lord Mackay of Clashfern QC
Lord Advocate
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr J Sparrow
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr M S Buckley

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1. INDUSTRIAL RELATIONS LEGISLATION

The Committee considered a Memorandum by the Secretary of State for Employment (E(82) 64) about future industrial relations legislation.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Government should now decide on its future strategy and tactics on industrial relations legislation. In his view, the first priority should be to focus the spotlight of public opinion on the trade unions as largely unreformed institutions in society with unrepresentative leaders. He therefore proposed to issue a Green Paper on the theme of trade unions and democracy. This would discuss three main topics: elections of trade union leaders; mandatory strike ballots; and the provisions of the Trade Union Act 1913 regarding contracting out of the political levy and the definition of the 'political objects' of trade unions. Although the Green Paper would describe the shortcomings of the present situation and possible methods of dealing with them without committing the Government to particular solutions, he hoped to be able to make progress towards requiring elections of trade union leaders to be by means of secret ballot. He had reservations about the wisdom of seeking to impose mandatory ballots before industrial action, though it was necessary to raise this subject in public debate. The subject of the political levy was bound to be highly contentious; and there was a risk that the whole question of the financing of political parties would be opened up. However, the Social Democratic Party had already made it a matter of public debate; and the Government's supporters would be dismayed if it was not discussed in the Green Paper. He would, so far as possible, treat it as an industrial relations matter rather than an aspect of the financing of political parties. Discussion of the possible extension of the definition of 'political objects' so as, for example, to cover elections to the European Parliament would be helpful in public presentation.

In discussion, the following main points were made -

a. There was a strong case in principle for requiring trade unions to elect their leaders by secret ballot but, because of the diversity of trade union rule books, it would be difficult to legislate effectively to this end. The proposed Green Paper should bring out the practical difficulties.

b. Although it would be right to raise the issue of mandatory strike ballots in the Green Paper, there were strong objections to them. They were a potentially valuable tool for management, in the right circumstances; and the freedom of management to decide when to use them should not be prejudiced.

c. Any suggestion that contracting out of the political levy should be replaced by contracting in would be extremely contentious. It would raise the question of contributions by companies to political parties and be used as an argument by those who favoured State financing of political parties. The Labour Opposition had indicated that they would withdraw co-operation in the conduct of Parliamentary business if the Government attempted to introduce legislation to change the contracting out system without a clear mandate from the electorate: for this reason, no statement should be made that the Government intended to legislate on this particular matter within the life of the present Parliament, at least until the 1982-83 Session had been completed. On the other hand, it would be difficult not to discuss the subject, which was already a live matter of public debate, in the Green Paper.

d. There was a particularly strong case for changing the system of contracting out from the political levy in closed shops, since those who worked in closed shops had to join trade unions as a condition of employment and had then to take positive action to avoid contributing to the funds of a particular political party.

In other areas, trade union membership was optional. It would however be undesirable explicitly to link the issues of contracting out and of the closed shop in the Green Paper: it might be better to let others make the connection.

e. It might be desirable for the Green Paper to suggest possible measures to increase involvement by employees in the affairs of the undertakings for which they worked. This would help rebut any suggestion that the Government's proposals were concerned solely with restrictions on employee activity. Against this, it was argued that employee involvement was not germane to industrial relations legislation; that to suggest otherwise would carry the unwelcome implication that employee involvement should be achieved through trade unions; and that until the Government had more clearly formulated its views on employee involvement it would be best to avoid public statements.

f. There was a case for including in the proposed Green Paper a discussion of the proposals by the Engineering Employers' Federation (EEF) and others, under which employers would be empowered, notwithstanding any contractual provision to the contrary, to lay off employees who were without enough work to do as a result of industrial action by others. The Government would however be obliged to point out in the Green Paper the difficulties about such a proposal and it would be bound to provoke opposition, possibly even from some employers. It would be better to keep options open by leaving the proposal out of the Green Paper.

g. The proposed Green Paper should not be published at a time when it might affect the current dispute in the coal mining industry.

THE PRIME MINISTER, summing up the discussion, said that the Committee approved the proposals in E(82) 64 for inclusion in a Green Paper. The Green Paper should not include discussion of the EEF proposals on 'lay-off' or employee involvement. Nevertheless, employee involvement was an

important subject, to which the Ministers concerned should give further thought. The timetable for consultations should make it possible for legislation to be introduced, if the Government so decided, in the 1983-84 Session of Parliament. The Green Paper should not however be published at a time when it might affect the current pay dispute in the coal mining industry; it seemed unlikely that publication before Christmas 1982 would be appropriate. The Secretary of State for Employment should circulate the draft of the proposed Green Paper to the Committee in due course, with proposals regarding the date of publication. The draft should be treated confidentially and not disseminated widely in Departments.

The Committee -

1. Approved the proposals in E(82) 64.

2. Invited the Secretary of State for Employment to circulate a draft Green Paper on future industrial relations legislation, taking account of the points made in discussion and the Prime Minister's summing up; and to put forward proposals regarding the time of publication of such a Green Paper.

3. Invited the Secretary of State for Employment to consider further, together with the Secretary of State for Trade and other Ministers concerned, the Government's policy relating to employee involvement and to bring forward recommendations in due course.

2. FAST REACTOR POLICY

Previous Reference: E(80) 46th Meeting, Item 1

The Committee considered the following papers on fast reactor policy: a Memorandum by the Secretary of State for Energy (E(82) 67); a Note by the Secretary of State for Scotland (E(82) 69); a Note by the Central Policy Review Staff (E(82) 66); and a Note by the Secretaries (E(82) 70), to which was attached a minute from the Chief Scientist, Central Policy Review Staff, to the Prime Minister.

THE SECRETARY OF STATE FOR ENERGY recalled that when the Committee had last considered fast reactor policy they had decided not to enter into substantive negotiations on collaborative deals with the French, but to continue funding the present United Kingdom nuclear research and development programme; they had authorised his predecessor to continue discussions on a non-committal basis with prospective partners in collaborative deals. Fast breeder reactors could improve the utilisation of uranium by 50 to 60 times, compared with thermal reactors; this offered the world a vast potential source of energy for many hundreds of years. Spent fuel and depleted uranium from the United Kingdom's thermal programme was a potential indigenous resource of the same scale as our economically recoverable coal. The fast reactor therefore had an important strategic attraction for this country. The technical feasibility of fast reactor technology was not in doubt: the commercial and economic case was more speculative. It depended on many factors, including the price of uranium and the costs of constructing reactors. But trends in uranium prices and energy usage suggested that the programme of development of fast reactors should be stretched out: it was unlikely that they would be economic for some decades to come.

It was essential that the United Kingdom should be able to exploit fast reactor technology when it became commercially advantageous. This could be done by licensing technology from abroad. He did not, however, favour committing the United Kingdom to such a course, at least at present. It would be risky, would sacrifice the fruits of 20 years of research, and weaken our influence in all matters of nuclear policy. Instead, he favoured a policy

of taking advantage of the longer timescale now in prospect to reduce expenditure on research; to concentrate on specific areas of research (while maintaining access to the whole range of fast reactor technology); and to explore wider collaborative arrangements internationally than had been considered in the past. He considered that these aims could be achieved by a programme costing £60 million a year by the late 1980s. Informal discussion with the nuclear industry suggested that such a programme, about £55 million of which would be required to continue to operate the prototype fast reactor (PFR) at Dounreay in Caithness, would be viable. It would entail a loss of jobs at Dounreay, but of only about 200 spread over three years. If further consultations suggested that the suggested programme would not be viable, it would be necessary to look at more radical options, including a much more rapid run-down of research and development and the closure of the PFR.

He was committed to making an early public statement on fast reactor policy. He proposed to make it clear that the Government intended to slow down the fast reactor development programme, with no intention to build a commercial demonstration fast reactor (CDFR) in the near future; but that detailed discussions on the balance and direction of the programme would be taken in the light of further advice from the industry and of further discussions with potential international partners.

THE SECRETARY OF STATE FOR SCOTLAND said that while he supported much of the analysis put forward by the Secretary of State for Energy he was concerned about several aspects. A statement that the Government had no intention to build a CDFR in the near future would have an adverse effect on morale at Dounreay and weaken our negotiating hand with potential collaborative partners abroad. Although the job losses envisaged at Caithness would not be extensive, they would be unwelcome. Most importantly, it was essential to preserve the United Kingdom's ability to play an active part in fast reactor technology: it was a central part of the Government's philosophy that our economic future lay with high technology industries. He doubted whether a programme costing only £60 million a year would be adequate for the purposes the Secretary of State for Energy had outlined: a more plausible estimate might be £70 to £80 million a year.

In discussion, the following main points were made -

a. On the one hand, it was argued that the commercial and economic prospects for fast reactor technology were at best doubtful, and that there was a good case for a rapid run-down of research and development in this area. It was reasonable to pay a modest insurance premium in order to maintain an independent capability in this country. The proposed expenditure of £60 million a year by the late 1980s should be adequate for the purpose: some leaders of the nuclear industry had suggested that a lesser amount would suffice. On the other hand, it was argued that it was virtually certain that the United Kingdom would require access to fast reactor technology and that it was unsafe to assume, on the basis of inevitably uncertain forecasts, that this would not be for several decades. The United Kingdom had been too slow in developing nuclear technology in the past; it should not repeat that mistake. Given the timescales involved in developing such a major technology, the beginning of the 21st Century should be regarded as the near future. We should do what was necessary to maintain a substantial independent capability in fast reactor technology: this would probably require expenditure on a significantly greater scale than £60 million a year. Indeed, if we were unwilling to incur this higher level of expenditure it was unlikely that we could maintain credibility as a potential partner in international collaborative deals.

b. It was necessary to consider not only the narrow economics of fast reactor technology but also the fact that the fast reactor was the only means of using plutonium produced by thermal nuclear reactors.

c. Members of the European Communities should press ahead with fast reactor technology: Europe had insufficient indigenous energy resources and needed to develop alternatives. We should therefore actively explore the possibility of collaboration with the French and Germans together. Against this, it was argued that the French would not be willing to collaborate with us unless we matched their level of expenditure. This would entail a substantial increase in expenditure, for very doubtful economic returns.

THE PRIME MINISTER, summing up the discussion, said that the Committee was not ready to come to a final decision. She would discuss the issues further with the Ministers most closely concerned and consider how best to make progress.

The Committee -

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

3. YOUNG WORKERS' SCHEME

The Committee considered a Memorandum by the Secretary of State for Employment (E(82) 68) on the Young Workers' Scheme (YWS).

THE SECRETARY OF STATE FOR EMPLOYMENT said that he proposed the following changes to the YWS, to take effect from 3 January 1983 -

a. The present earnings limits of £40 and £45 should be raised to £42 and £47; the subsidy paid under the YWS should be available where those sums or less were paid in weekly earnings;

b. the YWS should be extended to the employment of young people in domestic households;

c. the YWS should be available to employers in respect of young people coming off the Youth Training Scheme (YTS) in the same way as it was currently available for trainees leaving the Youth Opportunities Programme (YOP), and should also be available for 16 year olds alongside the YTS; and

d. if renewal of the European Commission's approval for the YWS (which ran only until the beginning of 1983) turned on the introduction of a training requirement, a simple condition that the employer should undertake to provide some training which he regarded as appropriate should be introduced.

Of these proposals, the first two were the more difficult. It could be argued that it would be wrong to increase the earnings limits as he proposed since this would foster expectations that they would be increased annually; and it was important to alter such expectations about wage levels as widely as possible. On the other hand, if there were no increase in the limits, there would be less incentive to Wages Councils or others determining pay to moderate pay increases so as to take advantage of the scheme: the increases that Wages Councils and others were considering would, for the most part, take pay rates substantially beyond the

existing limits; and it would not be realistic to expect the increases to be moderated sufficiently to keep within the limits. The proposal to cover employment in domestic households was justified because the decline in manufacturing industry meant that it was necessary to look increasingly to the services sector to provide employment. There was no reason why people should, for example, effectively be subsidised if they used gardening contractors employing young people under the YWS, but not if they employed the young people directly to do the gardening. The present coverage of the YWS was 100,000 young people. With the introduction of the YTS, that could be expected to fall to about 95,000. It would fall further unless his proposals were adopted. That would substantially reduce the impact of the scheme on youth employment and wages.

In discussion, the following main points were made -

a. As the Secretary of State for Employment had recognised, an increase in the earnings limit from January 1983 would raise expectations of an annual increase. This would be undesirable. The Government would be criticised for not doing more in practice to encourage lower wages for young people, despite its avowed belief in their desirability. It was also unfortunate that the increases proposed in E(82) 68 were larger than the $3\frac{1}{2}$ per cent which the Government had recently announced as the public service pay factor for 1983-84. A possible solution to these difficulties would be to increase the earnings limits by the amounts proposed in E(82) 68, but from the summer of 1983. An early announcement of the Government's intentions to this effect could influence the behaviour of Wages Councils and others, but without the undesirable effects of an increase as early as January 1983.

b. There were serious presentational drawbacks to the proposal to include employment in domestic households. Much of the benefit would go to people employing foreign nationals as 'au pairs'. This would be widely criticised; it would also add to the

'dead-weight' of the YWS. It could be argued that inclusion of employment in domestic households would help married women going out to work and requiring domestic help, or those who cared for elderly relations. On the other hand, it was unlikely that 16 year old school leavers would be suitable for such employment.

THE PRIME MINISTER, summing up the discussion, said that the Committee approved the proposals in E(82) 68 regarding the treatment of young people coming off the Youth Training Scheme, and the response to any requirement for European Commission regarding training on the Young Workers Scheme. They did not, however, favour extending the Young Workers Scheme to employment in domestic households. Nor were they persuaded that it would be right to increase the earnings limits at this stage as proposed in E(82) 68. The Secretary of State for Employment should consider further the question of earnings limits and bring forward fresh proposals to the Committee in three months' time.

The Committee -

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

2. Invited the Secretary of State for Employment to give further consideration to the earnings limits under the Young Workers' Scheme in the light of the Committee's discussion and to bring forward proposals accordingly in three months' time.

Cabinet Office

15 October 1982