

Economic Reconstruction Group

Minutes of the meeting held on Thursday
28th April 1977 at the House of Commons

Present: Sir Geoffrey Howe MP in the Chair
Sir Keith Joseph MP
Sir Ian Gilmour MP
Mr Barney Hayhoe MP
Mr David Howell MP
Mrs Sally Oppenheim MP
Mr James Prior MP
Mr Adam Ridley
Miss Anne Bulloch } Secretaries
Mr George Cardona
Mr Robbie Gilbert

Apologies: Mr John Nott MP
Mr John Biffen MP
Sir Leonard Neal
Mr Brian Griffiths
Mr Charles Bell

Further Statement on Economic Policy

Sir Geoffrey Howe said that the intention was to prepare a paper on economic policy in the Summer, for presentation either in published form or in speeches. This would amplify the argument on incomes policy; cover industrial and regional policy - the latter based on the discussion held at CRD on 21st February; discuss the reform of collective bargaining, and set out our approach to unemployment - in particular juvenile unemployment. Sir Keith Joseph said that his policy group hoped to produce a report in about two weeks, which the ERG would then discuss. Mr Prior said that work was in progress on a coherent statement of policy towards employment and industrial relations (including response to Bullock proposals) that he hoped would effectively combat the allegation that we could not work with the unions.

Unemployment

Much current discussion on unemployment ignored completely the scope for spontaneous job creation, provided that government's overall economic policy was right. There were many obstacles to remove before such job creation could take place. The Manpower Services Commission appeared to be entirely state-orientated. Its activities were, in any case, peripheral to the main problem. We were likely to be faced with a level of unemployment, and of militant opposition to it, quite unlike any that we had experienced when last in office. Resentment that was muted at present would break out if there was a change of government. Early retirement was one possible solution that should be encouraged and linked with efforts to reduce over-manning, which was at present being deliberately increased under the Employment Protection Act.

Other European countries were finding that, however, successfully they countered the recession, they were faced with special problems and political pressures over unemployment among the young, older workers and the disabled. Switzerland had lost 12% of jobs during the last three years in overcoming inflation; Germany's unemployment problem had been serious, even after sending foreign workers home. Some reduction in the unemployment figures might be possible if we followed French practice, and reduced the financial disadvantage

/... to married women who

to married women who stayed at home by improving child benefits and giving equal tax allowances to husband and wife. The Tax Credit group and the Equal Opportunities Commission were both considering the problem. The Group should be asked to take this study further. Mr Prior, Mr Hayhoe and Mr Gilbert would provide a paper on ways of reducing the unemployment figures, recognising that while the macro problem could only be solved by growth in the economy, we would need a package of measures to deal with micro aspects of it. They would also attempt to estimate the effectiveness of present job creation - preservation measures. Some 300,000 jobs were being supported, but much of the expenditure merely substituted job subsidy for unemployment benefit.

More research assistance would be needed. There had been a number of offers of help from ICI and other sources, but without sufficient resources to organise and co-ordinate outside assistance it was not possible to take up the offers. Sir Keith Joseph volunteered to draft questions that could be put to ICI to work on.

Mr Paul Dean was to chair a committee looking into ways of dealing with disincentives to work in the short term, before tax credits could be introduced. Our proposals would have to be carefully discussed with industry.

Concerted Action

Mr Konrad Zweig's paper, which had been circulated, described the various changes that this approach had undergone in Germany - first as part of the social market economy, then Schillerised, and now once more as an adjunct of the market economy. It had proved useful in gaining acceptance and understanding of the social market approach. We needed something similar, probably based, because it already existed, on NEDC, and possibly linked to a small council of wise men, as in Germany, who would have access to official data.

An alternative might be to build on the Diamond Commission, which had established a reputation for dispassionate exposition of facts. In Germany the wise men's annual report played an important part in establishing the basis for decision on what increases in income were affordable. The opening up of dialogue between outside opinion and the Government machine, in particular the Treasury, would be an essential part of any move towards concerted action here.

It was recognised in Germany that their methods would not work against present British trade union attitudes. Sharp divisions of economic opinion in this country could impede the wise men as an effective advisory body. Nevertheless, while we should avoid presenting concerted action as any kind of panacea, it could help in spreading understanding of the realities of our economic position. The Expenditure Committee had already achieved a great deal in this direction and we should build on their work.

The original CRD paper on concerted action would be revised for further discussion.

Prices

Mrs Oppenheim undertook to provide a paper in about a month's time on prices and competition policy. This would deal also with the question of any long-stop provision for price restraint that might be necessary when the present powers, under the Remuneration and Charges Act, lapsed in 1980. We should want to scrap the present Price Commission Bill and the freeze powers it contained. It was recognised that the Government could, if it wished, produce a short-lived reduction in the rate of increase in the RPI by imposing sectoral freezes or cutting VAT in the run up to a general election. Overseas opinion could be pacified by the plea that this was necessary to secure a Stage 3 agreement.

The meeting ended at 11.20 a.m.

AB/LSA
5th May 1977

The Conservative Research Department.