

Economic Reconstruction Group

Minutes of the meeting held on Thursday
16th June 1977 at the House of Commons.

Present: Sir Geoffrey Howe (In the Chair)
Sir Keith Joseph
Mr John Biffen
Mr David Howell
Sir Leonard Neal
Professor Brian Griffiths
Mr Adam Ridley } Secretaries
Miss Anne Bulloch }

Second Half of the meeting only:

Mr David Mitchell
Mr Evelyn McDermott
Mr Adrian Hopkinson

Apologies: Sir Ian Gilmour
Mr Prior
Mr Nott
Mr Biffen
Mrs Oppenheim

1 (a) CBI Paper 'The Future of Pay Determination'

The CBI's discussion document was discussed. It came fairly close to the proposals the Group had been considering, and was in general quite helpful from our point of view, although it was not necessarily an advantage to appear to have CBI endorsement for our proposals.

Many of the changes recommended - including the improvement of unions' control over their members - were desirable but could only come about slowly, step by step. It was doubtful whether we had time to wait for them. If the market were allowed to operate freely, we might get sensible arrangements and settlements within one to two years, but it might take a tidal wave of strikes and bankruptcies after the election to bring this about.

The proposal that the chairmanship of the new commission should rotate was wrong: the chairman should be a Minister in order to make the Government's commitment clear.

It was no part of our intention to give backing to the CBI's drive for greater employer solidarity. We should beware of appearing to give political backing to institutional co-ordination and pressure-group activity of this kind. We needed to consider our stance in relation to their increasing solidarity: we would be right to support self-fortification of employers' stance, but not necessarily their co-ordination. If they were to achieve 50 per cent of the improvement in bargaining machinery described it would help a great deal.

It would, however, be wasteful to devote too much time and energy to changing the timetable of pay bargaining and budgeting. While it might be valuable to co-ordinate pay negotiations and settlements in the public sector, it would be better for those in the private sector to remain scattered throughout the year.

CRD would draw together and comment upon the recommendations in the paper.

/. . . (b) Economic Education,

(b) Economic Education; Proposals for Concerted Action
re-draft and Counter Inflation Policy (PG10/77/30 - re-draft)

It was noted that there was some disillusionment among academics in Germany over concerted action. It was, however, recognised that the system was likely to wax and wane, and even go into eclipse for a time as far as decision-making or influence was concerned, but it would still be useful for discussion and defusing of tension.

The need for education in economic realities was at the centre of our policy: if we could gear our efforts towards enlightening a limited number of influential journalists, broadcasters or other opinion-formers we might achieve a great deal. The growth of the independent forecasters and commentators - Greenwells, Philips and Drew etc. - had come about largely in response to the new situation created by the floating of sterling.

The alternatives of creating new bodies or building on existing institutions needed careful consideration. The advantage of the latter approach was that NEDC and the RCDI already had union participation and acceptance. Some of the purpose of letting light into the Treasury could be achieved by allowing officials to take part in outside discussion.

Very strong reservations were expressed as to the advisability of setting up new institutions, such as a council of economic experts. It could be harmful, and resuscitate all the old arguments against such bodies, and could create fresh difficulties. Reform on the Parliamentary procedure side, enhancement of the educative role of NEDC, and the Bank of England, especially on monetary policy, would, on the other hand, be helpful.

An alternative approach, re-defining our objectives, was to set out to make good the appalling lack of adequate advice at the centre of decision making - to supply the need met by the Council of Economic Advisers in the US who were responsible for producing an independent annual report on the economy to the President. What was needed was a polygonal debate, with a wider and more varied flow of advice to Ministers.

To expand, and possibly re-vamp the CPRS and its role would be one way of achieving this - together with an extension to the membership of the NEDC. If the first objective was to be to improve decision making, the second objective, education, could flow from it.

More consideration was needed, in conjunction with the machinery of Government group, of how much could be achieved with the minimum of institutional change.

2. Small Businesses Policy

Mr Mitchell, Mr Hopkinson and Mr McDermott attended this part of the meeting.

The draft consultative document (PG/10/77/31) was discussed.

The Chairman thanked Mr Mitchell for all the work that he and the policy group had done on this paper, and on the proprietary company proposals. Mr Nott had accepted responsibility for developing the latter, because it was primarily a company law matter. Mr Pat Limerick might be asked to chair a committee to develop the proposals further. The CBI Small Business Council and possibly other bodies concerned might be told of the Committee's existence and invited to consult with it. At present the CBI and Small Business Association were resentful at not being consulted.

Small businesses were almost certain to come to different conclusions to those put forward in the paper. Starting from the presumption that 90 per cent of companies were small or of medium size,

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they would argue for the general rolling back of Government intervention, leaving special provisions to apply only to the 10 per cent of firms which were large.

The first sentence of the paper gave the wrong emphasis: small businesses were not a special case for which special provision must be made, they were at the centre of the economy and all economic policies must recognise them as such. The tri-partite corporative approach with its emphasis on the big battalions in the economy was wrong.

Reservations were expressed over the risk of encouraging Poujadist tendencies, and over the scope of advantages to be offered and the distortions in the economy to which these might lead. It was the general climate which had been at fault - but some special measures might be needed to correct it.

We should not make a major point of the labour intensiveness of small firms. Some were capital intensive. They could provide many but not most of the new jobs needed.

It was suggested that we should propose that a Liaison Committee representing all the bodies concerned with small firms and the self-employed should be set up and that we should negotiate with it. Alternatively as many as possible of those bodies should be represented on the NEDC.

Drafting Points

Pensions and the self-employed - pages 7-8: the commitment to allow accumulation of contributions throughout working life was too sweeping. We should say that we should aim at equality of treatment for the self-employed and for directors and others employed by companies.
Taxation proposals - page 14: it was not certain that there would be a need, or demand, for complex changes in Corporation Tax or other tax provisions for small companies, once the rates of tax had been reduced. The Tax Policy Group had concentrated on personal taxes because they had been considered to be the most damaging. Mr Mitchell undertook to provide a note on this.

CTT. Page 17, the reference to CTT at the bottom of the page should be re-written, and should refer to partnerships.

New organisation - page 20: there were reservations as to the advisability of setting up a new organisation resembling COSIRA. The problem was not basically lack of money; it was the time required for processing claims for very small amounts. It should also be emphasised that it was a question of guaranteeing loans rather than providing them. We should say that we were urgently investigating ways of dealing with the problem, and that one method might be to establish a separate organisation.

Proprietary companies - page 21: it should be made clear that the proposed definition was not confined to limited companies.

Publication

It was hoped to publish the document before the Party conference. There had been some delay on agreeing arrangements with Central Office over its format and launching. The timing was important if we were to gain maximum publicity, we must avoid co-inciding with the TUC on the Liberal conference in September. Mr Hopkinson would check on suitable dates.

A foreword to the document should set our ideas in ^{the} general framework of the property-owning democracy. Decisions on some taxation proposals were needed before the whole draft could be completed. It would then have to be discussed in Shadow within the next 5 weeks. Members were asked to send any further drafting points to Adrian Hopkinson at CRD.

The meeting closed at 12.00 noon.

AB/ISA 21:6:77

The Conservative Research Department