

NATIONALISED INDUSTRIES POLICY GROUPDiscussion Paper and Minutes of Meeting held on
9th June 1976 by the Chairman

The method we would like to see the Government employ to control the nationalised industries' financial performance is as follows:

1. The principal instrument of control should be to set each concern a financial target to achieve. This target should be expressed as a rate of return on capital employed. The amount of capital employed in each undertaking is, of course, arbitrary. Many industries have had capital written off, and none have updated the value of their assets to cope with inflation. Government should therefore set out arbitrary capital figures for each concern, upon which each would be required to pay the prescribed rate of return. The "capital employed" would be adjusted annually in the light of further capital advanced and of changes in the value for existing assets. The rate of return should be the same for all industries.
2. It should be a cardinal feature of our policy that there is no price control. If there is evidence of exploitation of a monopoly, either on the form of excessively high margins, or of discriminatory or cross subsidised pricing, the Government should refer the matter to the Director General of Fair Trading. (Powers already exist.) The general level of prices would in fact be determined by the target rate of return set on capital employed. We believe in addition that this control would result in some pressure for higher productivity and efficiency, as well as transferring the odium for price rises from the Government to the industries.
3. Whenever an industry considered it was being asked to undertake uneconomic activities - (rural telephone kiosks, branch or commuter railway services, uneconomic pits and steel mills in Scotland etc.). It would be open to it to apply for a specific subsidy from Government in order to continue it. If Government refused, the activity must either be fully charged for or discontinued. The industries should be required to keep proper accounts and show their results on each of their activities including the losses on uneconomic ones. We recognise that this can lead to undesirable bargaining situations, but properly prepared accounts should reduce this risk. The advantages of identifying and quantifying the loss-making activities seem to us to outweigh this disadvantage. If it could be seen publicly how much we were paying for what, there would be more informed public debate about whether we were getting value for money.

Such direct subsidies for uneconomic activities should be the only additional source of revenue available to an industry to meet its target rate of return.
4. We believe that investment control by the Government must continue. We recognise that it is this control which gives the Civil Service its opportunity for detailed, fussy, supervision of the industries. We hope it would be possible to insist on global control only - and to prevent the bureaucracy checking each item of investment. But we recognise that the control is necessary both for purposes of public expenditure control and macro-economic policy, and for preventing the industries extending their empires with undesirable fields. For the latter purpose Ministers must have enough information

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to say no, if they want to: for the former having to earn the target rate of return will be a steady influence, but the Chancellor must retain the power to make arbitrary cuts.

5. We recognise that there are defects in this system of control. They basically arise because there never has been, and never can be, any real financial discipline when the possibility of bankruptcy does not exist. Any financial control is a bit of a "try-on". Nevertheless this system, which is neither novel nor totally impractical, seems to us to have the greatest authority, and also to have the merit of increasing public knowledge of what each activity really costs. If we break some industries down into a larger number of "profit centres", it is probably the only practical system which would have general application right across the board.

N.R.

Conservative Research Department,
24 Old Queen Street, London, S.W.1.

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