

ce/ Campbell (Dis. Pub. & Econ. Assoc.)

PRIME MINISTER

MEETING WITH THE CHANCELLOR - THURSDAY, 12 JULY AT 0855

The Chancellor is coming to discuss his draft papers on the National Forum and the Economic Advisers' Council. These are attached. If you can reach agreement with the Chancellor on them, they could be put on the agenda for E Committee for next Tuesday. That meeting will be continuing the discussion on pay, and these papers would fit well with them.

The Chancellor is likely to raise two other points with you:

- (i) Handling of the EMS review. Sir John Hunt's advice on this is at Flag A.
- (ii) Your meeting with Sir David Steel next Monday. The Treasury have heard - not from us - that you are meeting Sir David along with Mr. Howell. The Chancellor would like a Treasury Minister to be present. This seems not unreasonable since the Treasury is responsible for BP: the Government's shares are vested in the Treasury Solicitor, and the Government directors are appointed by the Chancellor. The Chancellor himself will be in Brussels on Monday; presumably it would be for the Financial Secretary, who of course has been taking the lead on assets disposals, to attend. (For Monday's meeting, I am getting a brief from the Department of Energy, which will include a report from Mr. Howell on the meeting which he has already had with Sir David in accordance with the guidance given by E(DL) last week.)

11 July 1979

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The Chancellor has also sent a note (Flag B) on the international currency situation - which he may refer to.

DRAFT PAPER BY THE CHANCELLOR OF THE EXCHEQUER

NATIONAL FORUM

1. At E(79)2nd Meeting on 1 June we agreed that a major educational effort was required to ensure that economic realities were understood by both the wider public and by those involved in pay bargaining, and I was asked to circulate a paper setting out the possibilities for a "forum" in which ~~pay~~ matters could be discussed with interested parties in a wider context. This paper accordingly considers the form that such a forum, whose discussions need not be confined to pay matters, might take.

Objectives

2. A prior question must be what such a forum is to be expected to achieve. Only when this has been decided can we sensibly consider the question of its composition, organisation, work methods, and so on.

3. There is a range of possibilities. These might include:

- broad analysis of what is happening, or might happen to the economy;
- general dissemination, both among those with greatest influence and more widely, of understanding of how the economy operates and, thus, what kinds of mutual adjustment could lead to better all-round results;
- the achievement of broad agreement on the main objectives and limitations of future economic policy and the kind of approach necessary to secure them.

4. I do not think we should at the outset look to a forum to achieve a consensus on broad economic policy. If this in due course emerged, and if it included ^{any} a measure of agreement on ~~pay~~, it could represent a significant step forward and help to establish a more harmonious and realistic climate in which responsible pay bargaining could take place. But this would emerge by a process of evolution, and should not be set as an objective from the start, particularly if there were any risk of it being interpreted to refer to reaching agreement on

specific pay targets.

5. Rather, I think that at any rate at the start the main role of the forum should be seen as, in the broadest sense, educational - both for the participants and for the public at large. As far as pay is concerned, for the unions, we might be thinking in terms of bringing home the trade-off between the short and longer-term effects of pay bargaining; for employers the aim might be to underline the practical consequences of the stance they adopt. But in either case the basis would be consideration and analysis, with the aid of the best possible input, of the broad economic "facts of life".

The German experience

6. It is worth considering briefly the German experience with their system of "Concerted Action". Its original intention in the 1960s, was to eliminate (or at least minimise) misunderstandings between unions, employers and Government on macro-economic matters. The idea was that making the effects of wage decisions on prices more apparent would lead unions and employers to conform with the basic liberal market economy and not exploit power positions leading to inflation and dislocation.

7. The chief architect of the system, Professor Schiller, when Minister of Economic Affairs, ran the system in a strict way, insisting on joint communiques following meetings. Initially this was welcomed by all concerned, but after a few years disharmony started to creep in. Schisms developed between the leaders involved in Concerted Action and their local members. This eventually led to the leaders taking up more unreasonable positions, with less hope of compromise. Joint communiques ceased: press conferences were held instead. At the same time attendance at the Concerted Action meetings grew, rising to a peak of 80. The unions also became irritated that every meeting seemed to turn into an attack on them, with the other participants forming a common front. It was therefore not surprising that when a suitable pretext arose - a legal dispute with the employers over the scope of the Co-determination Law - the unions withdrew from the system in 1977. Since then bi-lateral discussions have continued "round the coffee table". It seems likely that these will become multilateral, but restricted to a narrow group of participants. The intention would be to preserve maximum informality and avoid preaching.

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Character of the Forum in the United Kingdom

8. A lesson to be learned from the German experience seems to be the need for informality. This would be entirely suitable in our circumstances, making the forum more of a "happening" than an institution in any formal sense. There would thus be a minimum of rules and procedures and maximum flexibility to allow the members of the forum themselves to determine how most effectively and productively to proceed. Although in order to secure maximum frankness in discussion, the forum's proceedings should not be public, it would obviously be desirable for it to find effective ways of projecting itself to the public at large. The exact means of doing this should be for the forum itself to settle: there are obvious dangers in seeking any sort of agreed communique. In any case I think it would be wrong to impose at the outset any requirements that could impede a relaxed exchange of views and information.

Composition and Organisation

9. Two broad possibilities could be considered:-

(i) a large group representing a very wide range of interests; if consensus were achieved, this would be powerful; but the size of the Group would make consensus difficult, confidentiality impossible, and hence posturing likely; I therefore would not choose it for our first experiment;

(ii) a smaller Group, more akin, in terms of composition, to the existing National Economic Development Council (NEDC), which is small enough to enable genuine discussion to take place.

(Annex
to
follow
later)

10. My own preference is for a group based on the NEDC. A summary note on the NEDC's present organisation is attached at Annex. This shows that its terms of reference are apposite; it already covers most of the key potential participants and is not so large as to be unwieldy. Its agenda and methods of work are flexible and so could easily be adapted. No new bureaucracy would be required, whereas if the NEDC were not used it would be difficult to avoid setting up another new body. Further, since the TUC are already members, the decision on whether to participate in new arrangements that were based on the NEDC should not be so difficult for them.

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to request further inputs if they wished - either from the Council or the Government or other sources - and members of the forum would, of course, be free to make their own contributions.

14. On this basis the forum might meet at a minimum on two occasions a year - say in the early summer (ie prior to the beginning of the next pay round) and around the turn of the year (ie prior to the Budget). Discussion at those meetings would be focussed on the report from the Council of Economic Advisers and would thus range over progress in the past year and consideration of the prospects, choices and range of choices for the coming year. It would be up to participants to consider whether other meetings were desirable. An occasion for these might, for example, be any other major reports produced by the Council of Economic Advisers. Or the Chairman might wish to summon the forum to discuss a particular issue of major economic significance (eg the implications for the economy of the world energy situation). There is unlikely to be a shortage of topics; but too frequently meetings could devalue the effectiveness of the forum.

15. I do not therefore see the forum, at least initially, conducting formal business, or having any technical or insitutional existence on its own. Consequently any papers which emerged would be the responsibility of the organisations/individuals who had prepared them (eg the Chairman of the Council of Economic Advisers), with perhaps endorsement in very general terms. In so far as any action was called for by the forum, this follow-up would normally take place through other, established, machinery.

Relations with Parliament

*I am not
entirely
sure
how far
it would
be possible
what*

16. This approach would help to simplify relations with Parliament. ~~It is not clear that~~ any formal relations with Parliament should be established. ~~But~~ it would, ~~of course~~, be open to Parliament to debate at any time the activities of the Government, including its participation in the forum, and any associated reports or statements emanating from the forum. Similarly, it would be possible for a Select Committee to invite members of the forum to appear before them. But this possibility of calling on leading economic personalities (including perhaps the Chairman of the Council of Economic Advisers) would exist regardless of whether such people met from time to time in the context of the forum.

in any case

Conclusions

17. The above proposals are in outline only and would need more detailed examination if their general thrust were accepted. However, I believe that a forum on these lines could make a contribution to general understanding of the economic problems and choices that face us although it would be wrong to expect too much from it. If the Committee share my views, I suggest that we should ask officials to examine the possibilities in greater detail and bring forward for our consideration a more specific set of proposals. At the same time I think that before we go too far it would also be useful if informal soundings were taken of the TUC and CBI at General Secretary and Director General level.

The form shape of any similar institution
or agency would depend, as a significant
factor, on what was likely to be most
effective in practice.

NATIONAL ECONOMIC DEVELOPMENT COUNCIL

The NEDC is a flexible institution as regards the work it does, its membership, and its procedures.

2. The Council was set up by Ministerial decision in 1962, with broad terms of reference to examine the economic performance of the nation (with particular concern for the plans for the future in both private and public sectors of industry); to consider what are the obstacles to greater growth; and to seek ways of improving economic performance, competitive power, and efficiency.

3. Because the Council is not a statutory body, and has no formal constitution, there is flexibility about the total size and composition of its membership; decisions rest with the Chancellor (who, as Chairman, appoints all members of the Council) and the Prime Minister, but the CBI and TUC have been consulted in the past about representation, and it has been customary to accept their nominations for their own respective places on the Council. The aim has been to maintain equal representation from Government, TUC and CBI; currently there are six representatives each from the two sides of industry. There are also at present two independent members (Lord Roll and the Chairman of the Consumer Council), two Chairmen of Nationalised Industries, and the Chairmen of the NEB and the MSC. The Director-General of the National Economic Development Office (which was established at the same time as the Council) is also a member.

4. The Council is deliberative rather than decision making; there is no voting or promulgation of communiques, though it is usual for the Chairman and/or the Director-General to hold a press conference after each (monthly) meeting to give an account, by agreement with the Council, of the discussion which has taken place. Though the Chancellor of the Exchequer is normally chairman of the Council, successive Prime Ministers have also taken the chair from time to time either at a regular meeting or at a special meeting for a particular purpose (eg to consider major economic events in December 1973).

5. Though the Council is the principal forum for tripartite discussion of medium term economic policy issues between Government, management and trade unions, there has also been a tendency for many major issues of economic policy - eg pay - to be pursued outside the Council in bilateral discussions between the Government and the TUC or CBI respectively. Over the last 3 or 4 years, discussions in the Council have been mainly concerned with problems on the supply side of the economy and with issues arising directly or indirectly from the work of the Economic Development Committees and the Sector Working Parties; however, this has in turn involved discussion in the Council of a wider range of issues, extending beyond economic and industrial policy to the relevant areas of social policy and so on.