

STEERING COMMITTEE

Minutes of the 27th Meeting held at 5.00 p.m.
on Tuesday 13th May 1975, in the Leader's
Room at the House of Commons.

Present : Mrs. Thatcher (In the Chair)

Sir Keith Joseph, Sir Geoffrey Howe,
Mr. Maudling, Lord Carrington,
Mr. Atkins, Mr. Maude, Mr. Peyton

Mr. Shelton, Mr. Patten, Mr. Ridley
Mr. Niblock (In Attendance)

Apologies : Mr. Whitelaw, Mr. Gilmour, Mr. Prior

1. Opening the discussion on economic policy Mrs. Thatcher said that a debate on the economic situation was to be held on Thursday 22nd May. It was not clear whether there was going to be a Government statement on the economy before this. Whatever the Government decided, the debate was an occasion for the Conservative opposition to raise the questions which were causing concern in the country in the present economic situation.
2. Mrs. Thatcher observed that whereas in other industrial countries, the inflationary problem had abated over the past year, in Britain it was getting worse. It was noted that other countries had got on top of their inflation without resort to very high levels of unemployment or statutory pay controls.
3. In discussion it was pointed out that because other countries had not resorted to statutory policies it did not necessarily follow that such a policy could be dispensed with in Britain in our present economic circumstances. The Conservative Government's experience with statutory policy did not, however, suggest that it was in the long run an effective way of achieving pay restraint.
4. The floating of the exchange rate meant that a sterling crisis of the kind experienced in the Sixties could be avoided. The downward floating of sterling was a way of adjusting to the fact that the country was living beyond its means. It was unlikely that the Arab oil-exporting states would withdraw their existing funds from London, but the decline in the value of their money was hardly an encouragement to them to put more money here. If a crunch were not to be expected, it was all the more important to tell people that the economic situation had been deteriorating steadily and would continue to do so unless action were taken. The Government could not let the situation slide indefinitely.
5. A cut in public expenditure was one step that had to be taken. But a major question in most people's minds was what the Party would do about excessive pay increases and how it would handle the unions. Unless the Party had answers to these questions its credibility would suffer. The current dispute over pay in the steel industry provided ground on which a Government which was determined to combat wage inflation should be prepared to stand and fight. In the public sector it was essential that pay increases should be passed on fully in price increases. This could well mean that some groups of workers would be pricing themselves out of jobs. There was a clear case for emphasising that unions were causing redundancies and threatening to cause more in the future.

6. On the subject of restraining public expenditure, it was a question of deciding where the Conservative opposition would recommend cuts; and how much this would help in the fight against inflation. Sir Keith Joseph said that 10 per cent of public expenditure was currently being financed by borrowing. The private sector was trying to keep up with pay increases being awarded in the public sector. There had to be a cut-back in borrowing and this could only be achieved by a cut in public spending.
7. Sir Geoffrey Howe argued that the Government should have taken steps this year to reduce the very large bill for rent and food subsidies. Moreover, the Chancellor of the Exchequer should make clear that he would not make available any additional funds for the financing of wage settlements which gave a further twist to the inflationary spiral. The increase in public expenditure should be subject to a limit in cash terms. Should excessive pay settlements nevertheless be awarded it would be up to the authorities which had awarded them to keep within the cash constraint by cutting back on staff and services. It was acknowledged that pressures would inevitably develop against a severe cutback in public spending.
8. Following some discussion of the constraints imposed on the last Labour Government in July 1966 by the IMF, Mrs. Thatcher said that the Letter of Intent which had been signed by the Labour Government included undertakings both to hold public spending in check and to maintain the statutory controls over pay which had already been instituted.
9. Asked by Mrs. Thatcher what policies he would follow as Chancellor of the Exchequer in the present circumstances, Mr. Maudling said that he would call a halt to any plans for further increases in public spending and enforce a wages freeze. The fundamental inflationary factor in the economy was the extra purchasing power injected into it as a result of excessive pay increases. Sir Keith Joseph said that on past performance a pay freeze would almost certainly be followed by a pay explosion once the freeze was lifted.
10. Doubts were expressed about whether a return to tighter price controls could be avoided if statutory controls over pay were introduced. In any case there was the problem of what to do when powerful groups challenged the policy. Some impact on the situation could be achieved were the Government to withhold money needed to finance excessive pay increases in the public sector. One approach would be to index pay increases at a level somewhat above the cost of living increase. A reduction in demand would add further to the disincentives to firms to invest.
11. It was agreed that there were two crucial political questions to which answers were needed - (i) what was the Party's attitude towards coalition? and (ii) did the Party support a wages freeze? The answer to the first of these should cause no difficulty at the moment, since it was a purely hypothetical question. The Party should not be prepared to offer blanket support to the Government on issues on which their left wing was in revolt. It was suggested that if the Government were ready to drop damaging measures such as nationalisation, a basis for discussing the possibility of coalition might exist, but that it did not exist at the moment. It was thought advisable for Party spokesmen to adhere to the view that the question of coalition, should it arise, could be considered by Conservatives in the light of the national interest.

12. Regarding a wages freeze, Mrs. Thatcher said that she was not totally opposed in any circumstances to a limited freeze. At the heart of the question was the power of certain unions to defy a wages policy. It had to be put clearly to the people what the alternatives were and an appeal for public support against the minority of militants had to be made. It was pointed out that in a number of unions there had been a swing away from left wing militants. Mrs. Thatcher said that the moderate elements within unions had to be encouraged to make their influence felt and that postal ballots could help to this end.
13. It was noted that people did not go on spending regardless of price rises. The reduction in petrol consumption and the use of the postal service showed this. It was sensible to make people think in terms of a three or four year programme aimed at cutting spending, rather than anything that could be done overnight.
14. Summing up, Mrs. Thatcher said that the Shadow Cabinet seemed agreed that the Party should not adopt a low profile in the current debate about the economy, but should instead spell out clearly, in general terms, what should be done.

The meeting closed at 7.05 pm.