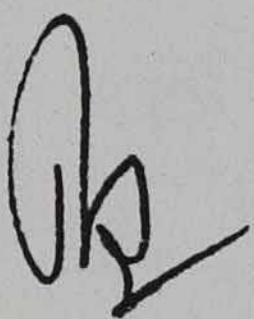


Original Returned to Hoskyus.

PRIME MINISTER

I attach our recommendations on the report by MISC33 on Supplementary Benefits for strikers' families.

As you know, we have had comments from outside specialists that radical measures on Supplementary Benefits, however rational, will provoke trade union reaction. That should not deter us, but we may give this topic a different political weighting and timing depending on how bold we decide to be on the Employment Bill.



JOHN HOSKYNS  
8 February 1980

Ideally, this should be read with the Misc 33 Report, but it can, fairly reasonably, stand alone.

12



# CONFIDENTIAL

## SUPPLEMENTARY BENEFITS FOR STRIKERS' FAMILIES:

### REPORT BY MISC 33

1. The Policy Unit has been associated with the work of MISC 33 in preparing a full report on the background to this issue and the options which are open to Ministers. This note contains our recommendations.

#### Objective

2. As our Manifesto made clear, the main aim of changes is to help restore the balance of bargaining power in industry by making strike action less attractive. We do not seek to restrict the right to strike, but to ensure that the union and its members have to face up to the consequences. At present, an employer knows that a long strike will steadily deplete his resources and undermine the future of his business. By contrast, the union negotiator is secure in the knowledge that supplementary benefits (SB) will provide a safety-net which is cost-free and inexhaustible. With the cards stacked against them, we cannot be surprised when employers show a lack of resolve in improving productivity or resisting inflationary wage claims. Since our whole economic strategy relies on the determination of management to do better, we must make changes.

#### Where should responsibility lie?

3. Deeming trade unionists to be in receipt of strike pay would provide a modest step in the right direction. But it would only result in marginally increased pressure on trade union negotiators to think twice before calling a strike and to seek an early resumption of work. And it leaves intact the notion that the Government should be responsible for the welfare of the strikers' families. There is scope for going much further and clearly establishing that the responsibility for the position of strikers' families lies with the strikers themselves and their unions. There is plenty of evidence of public support for this proposition. The survey recently published by The Times found 77% of adults wanting some restriction on SB for strikers' families. Reg Prentice had plenty of support from backbenchers and the media when he recently told the House that the £1m paid out to steel workers' families by the state should have been the responsibility of the unions. The public would welcome the replacement of DHSS stalls to pay out SB to strikers by stalls operated by the unions themselves.

4. Once this responsibility is established, it will help moderate members to oblige their union officials to think twice and negotiations between them and employers will become very much less one-sided. If public opinion can be effectively marshalled, the more fuss trade unions make about this change, the more they will incur unpopularity for trying to avoid their responsibilities. It is, once again, a propaganda battle we have to win. This question - are we prepared to lead and win in public debate - arises on every step we take in Trade Union reform.

/Our preferred course:

# CONFIDENTIAL

## Our preferred course : Option B

5. We favour making it clear that SB will no longer be available to strikers and that it is for trade unions and their members to make arrangements which meet their needs. If unions choose to pay strike pay on a flat-rate basis to all members, regardless of circumstances, that would be up to them. Alternatively, they might decide to concentrate their resources on those of their members most in need. Since the Government would not distinguish between official and unofficial strikes, the unions would be provided with both an incentive and a weapon to control unofficial action.

6. Of course this responsibility would be an unwelcome burden. But over many years, successive Governments have imposed all kinds of burdens on employers from the PAYE system to VAT returns from hundreds of thousands of small businesses. In contrast to these obligations, strikes are optional and we are trying to make them more difficult. Of course, unions would need to be given time to organise themselves. But in the great majority of cases, only a small proportion of the union members will be striking at any one time and a still smaller number would really need financial help. The effort required should be well within the capabilities of a trade union. To the extent that they need to become more responsive to their members' wishes and more systematic in their record-keeping, this ties in well with our wish to make them better able to organise secret ballots, and come under greater pressure from their members to do so.

7. The great majority of trade unions would be well able to meet the cost of hardship amongst a small minority of their members. However, to avoid the charge that unions were being given a responsibility which they had not the resources to meet, the Government could offer to make loans - repayable with interest at commercial rates - available to unions who required them for this purpose, (Option B). In practice, very few unions would be likely to resort to loans from the Government. Where they did, there would be a small problem in fixing the maximum level of such loans and ensuring they were repaid. But these would not be insuperable. The fact that the loan was recoverable would inhibit any tendency to borrow beyond immediate needs, and there is a legal remedy for the Government in the event of failure to repay.

## Problems to be overcome

8. Any change in the present arrangements will have some drawbacks, but the need to change the present unsatisfactory position is clear. Each of the following problems can be overcome:

- (a) Arrangements would need to be made for non-union members involved in a trade dispute. We propose that they should continue to receive SB from DHSS, but that these should be in the form of a recoverable loan. If SB was provided as a grant, we think the contrast between the treatment of union and non-union members would be too stark. The number of non-unionist claimants would be small - and further reduced by the deterrent effect of having to repay the money later. They should not present a large administrative problem for DHSS, who already recover loans made to strikers on return to work.

# CONFIDENTIAL

- (b) The report by officials explains why it is not possible to treat lockouts or those laid off with an interest in the outcome differently from those actually striking. All are regarded as involved in a trade dispute. This problem exists for any solution, but lockouts are very small in number - estimated by the Department of Employment to involve only 1 in 6,000 strikers during 1966-73 - and practically never instituted unilaterally by an employer. (The Rolls Royce case last year was in response to two-day a week strike action.)
- (c) There would need to be some limit set to the Government's willingness to loan funds. Logically, this should be based on an estimate of the amount of SB which would be paid in respect of strikers' families under current arrangements. However, the percentage claiming benefits varies widely. One solution would be to provide loans up to an amount equivalent to the SB entitlements of all striking members' families. Again the need to repay should deter any tendency to over-borrow.
- (d) Even with time to prepare, some unions may find themselves administratively unable to fulfil their new responsibilities at first. Where genuine hardship arose, they might seek to blame the Government. Provided public opinion supports the transfer of responsibility to the union, such blame can be properly redirected. However, if it became a significant problem, it might need to be open to the Government to provide a recoverable loan to an individual striker who was in need, provided he could show that his union had been unable to support him and the union had requested a direct Government loan to help him instead. This would be an admission of failure which we expect trade unions would normally be anxious to avoid. Furthermore, if the trade unions advanced their assistance to their own members as a grant, individuals would have no incentive to go to DHSS for a loan instead.

## Other Measures

9. We see a strong case for combining Option B with Option F: treating strikers in the same way as the unemployed for taxation purposes. If Option F is not pursued, strikers will be uniquely favourably treated by the tax system. If it is adopted, a major source of strike income would be removed and claims for SB would increase. This strengthens the case for removing strikers' rights to claim SB and placing the responsibility on the strikers themselves and their unions.

10. If we adopt these measures, we shall succeed in the Manifesto objective of making striking less attractive. To the extent that we succeed, some unions will search (as they are already doing) for ways of calling out a key group of employees only. It is therefore very important that neither employers - through their lay-off pay agreements - nor Government - through the Social Security system - should do anything to encourage these tactics. In principle those who are laid off by a dispute but stand to benefit from it do not qualify for Unemployment Benefit. Annex 1 to the official

/paper described

# CONFIDENTIAL

paper describes how a recent change in the Employment Protection Act has slightly relaxed these disqualifications. We think the rules should be restored to the pre-1977 position.

## Recommendations

11. We therefore recommend:
  - (a) that Option B should be adopted for SB;
  - (b) that Option F should also be adopted for the tax treatment of strikers;
  - (c) the change introduced by section 111 of the Employment Protection Act (described at Annex 1 of the official paper) should be reversed.