

THE ECONOMIC EDUCATION OF THE PUBLIC

PROPOSALS FOR "CONCERTED ACTION" AND

FIGHTING INFLATION

1. In the Right Approach the party committed itself to the view that Britain needs some kind of "concerted action" \*, which should be developed on a basis "compatible with existing British institutions". This report explores ways in which that commitment might be honoured. Part I discusses the logic and philosophy of the proposal; its particular application as part of a counter-inflationary policy; the kind of practical arrangements which might be required to operate it; and points to the many different ways in which it might be implemented. Part II considers briefly how the outside world might respond to such an initiative. Part III discusses what might have to be done to get Concerted Action going in the first months of a Conservative Government. There are also two Annexes containing background information on the ancestry of the idea and other points of interest.

PART I

The logic and philosophy of the proposals

2. The need for Concerted Action and institutions to carry it out arises for the following reasons. There are two fundamental obstacles to the pursuit of sensible economic policies in this country. The first is ignorance about the workings of the economy and consequent disagreement about what the broad goals of policy should be and how best to achieve them. The second is the absence of procedures capable, once such ignorance has been diminished, of helping to translate responsible and realistic attitudes into concrete actions. This second point is what is understood widely on the continent by the french word "concertation", for which no equivalent exists in English.

3. The route through enlightenment to sensible decisions and actions can be usefully broken down into a number of closely related stages:

- (a) Publicity to explain the constraints and limits within which economic policy operates and to define more clearly the objectives of the principal groups in Society.
- (b) Education to explain, both to ordinary people and experts, how certain economic processes and policies work, to turn complex theory or disingenuous arguments into solid commonsense reasoning and in particular to expose to critical analysis the panaceas and fashions of the moment.
- (c) Debate and scope for cross-examination, so that people can establish to their own satisfaction (as far as is possible) what is true and false, in the narrow or the national interest, in the arguments and declarations

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\* The term "Concerted Action" is a direct translation of the analogous French and German phrases: "Action concertée" or "Konzertation" and "Konzertierter Aktion". Inevitably it sounds ugly and conveys little in English. We recognise the need for a better title or phrase to describe it and use the unsatisfactory direct translation in this paper faute de mieux. Many obvious expressions such as "Parliament of industry" are inaccurate, already have unfortunate political overtones, and tend to convey something both too precise and limited in scope.

- of Ministers, experts and interest groups.
- (d) On these foundations alone can one build growing understanding, persuade people to acquiesce (at least to the inevitable), and create a clearer consensus about what is in the national interest.
  - (e) In time, given other changes, that understanding may lead some groups or interests to express their consent to Government policy.
  - (f) All of this should bring one a little closer to the ultimate (and unattainable) goal of a united national commitment to sensible policies - meaning both means and ends.

4. It should be stressed immediately that a barely hidden purpose and consequence of these proposals is a major change in the way in which Government seeks and offers economic advice. This is a secondary issue in the present context, but is nonetheless of great importance in its own right. For

- (a) the advice and intelligence offered by the economic establishment in the civil service has deteriorated to a near intolerable level and has come to be as important a cause of bad decisions and policies as the mistakes of politicians.
- (b) so low has the professional status of the Treasury now sunk that it appears to be unable to recruit any competent outsiders for senior economic posts.
- (c) Furthermore, the economic problems of the economy have now become so complex that solutions to them cannot lie solely in attracting a few brilliant individuals into the machine. The economic truth is now so elusive as to be beyond the grasp of any single individual or group of individuals. We need to mobilise all the experts we can and to give all important voices in the technical debate a proper channel of communication with our official advisers and, at one remove, with ourselves.
- (d) The basic style of British economic policy making has always tended to be Olympian, delphic, mysterious and inexplicable. When the content - the decisions - begin to be seriously and persistently wrong, such a basically undemocratic way of conducting the nation's business makes the task of Governments increasingly impossible. A more honest and open approach is essential to recreate the trust and confidence of the nation in the authority of Government.

In other words, much of what is involved in the CA proposals is worthy of consideration as essential if decent economic decision making is desired, regardless of whether CA itself is held to be a worthwhile goal.

#### Coordinated Action and Inflation

5. As a weapon in the fight against inflation, CA is designed to operate in a variety of ways:

- (a) to moderate expectations of increases in wages and prices and reduce the cost in lost jobs and output of getting inflation down to a tolerable level, by making people understand and accept the limited scope for economic expansion and the implications of disciplined control of the money supply and public spending.
- (b) to ensure the widest possible understanding and agreement on the priorities the nation should follow for the uses of the national income and its growth (e.g. the need

- to rebuild profits or put oil surpluses to good use); and the means by which those uses will be most favoured.
- (c) to reflect at the national level and, perhaps, to represent the views of every citizen in his principal economic roles - for example as employee, saver, consumer or manager.
- (d) to discreetly bring into play countervailing powers to balance the voice of the TUC and CBI, by giving the rest of the nation the opportunity to give an account of their priorities and needs and of what other peoples' proposals would mean for them.

These four objectives represent little more than a programme of "concerted information". Concerted action would take some time to develop and there is no point in setting our sights on it prematurely.

#### Institutions for Concerted Action

6. It is not easy to unite in any simple way the numerous characteristics which the institutions and procedures of CA seem likely to need. One seeks to represent both "the people" and major interest groups, to stage debates on the biggest and most controversial economic problems, but to end up with as wide a range of agreement as possible; to make participation in the institutions natural and inevitable, but to use them to discipline or restrain Industry or the Unions; to reach a broad agreement on what economic policy should be, but not to undermine the authority and role of Government and Parliament. In our examination of the possibilities we have been made acutely aware that any one answer will be a compromise and that certain basic issues recur again and again. Is what is needed an arrangement which is relatively small, cosy, elitist and capable of tackling difficult issues; or something larger, more comprehensive and, though inefficient, better designed for blocking the wishes of the strong? How far does one want a body like a Royal Commission - independent and authoritative but perhaps rather detached from politics - or rather another House of Parliament actually capable of seriously representing the economic interests of society and injecting them constructively into the conventional political process?

7. We are convinced that it would probably not be possible and would certainly not be desirable to try to combine all that is needed in one body; that one needs both a representative Council and a Commission of independent experts; and that it would not be too difficult to evolve them from existing institutions. We do not investigate the detailed practical consequences of this conclusion in this report, and refer simply to the two bodies as the "Council" and "Commission".

8. There are three alternatives for the representative Council. The first would be a very wide membership, selected from such bodies as those listed illustratively in Appendix 1. To do this would be to risk making the body unmanageably large and raise agonising questions of who is to be represented and why. The only possible way of incorporating, however indirectly, a very wide range of interest groups would be to induce numerous disparate organisations, to group themselves under a small number of umbrella-like associations and to include only the upper-tier associations in the Council proper. This is unlikely to be workable, even if such bodies as the CBI, TUC and ABCO (Chambers of Commerce) have shown themselves able to organise themselves fairly effectively. Furthermore umbrella organisations go against the principle of "divide and rule", which would argue for attempting to represent

every powerful interest ( and particularly the unions ) individually rather than collectively.

9. The second alternative would be to include explicitly only a few large groups with an incontrovertible claim on the national income, or role in the productive process: wage-earners, managers, the self-employed, "productive" industry, commerce, financial institutions (the City), pensioners, students, claimants of social security benefits and consumers. This is the alternative we recommend.

10. The third and easiest approach would be to keep to something very close to the present NED Council, which represents the TUC, CBI, government, consumers and ordinary people through one or two "statutory independents". It would clearly be possible to develop a compromise between these approaches by holding more than one kind of NED Council meeting. There could be an expanded membership at certain times and to deal with certain issues, and a restricted membership roughly on present lines for conventional NED Council business.

11. We have some sympathy with the proposal that the opposition parties should be members of the Council, but we do not on balance support it. If the aim is to bring economic realities back into Parliamentary life, then there are other better methods, one of which we discuss later. If the aim is to inject more party politics into the Council, we would argue that this is simply undesirable.

12. The Commission or groups of experts could be evolved in a number of ways and with a variety of functions. It could be:

- (a) evolved from the shell or skeleton of the present Royal Commission on Income Distribution. This could well be wisest approach if one wishes to secure TUC endorsement for the Commission's terms of reference and would exploit the considerable, indeed, improbable and well deserved reputation for objectivity which the RCID has already gained for itself. (It should be borne in mind that the RCID consists not only of a group of representative Commissioners, but also of a professional secretariat.) A serious, if not insuperable problem with this Proposal stems from the fact that most of the expert members of the Commission proper are nominated by the TUC, CBI or other bodies; and they are not really expert enough. One way round this dilemma might be to reconstruct the RCID to give it two quite distinct wings: one, as at present with representative Commissioners concerned with income distribution; the other with independent authoritative experts concerned with the broader economic issues sketched out earlier. By doing this one would incidentally be able to gradually inject considerably more economic realism into left wing and union aspirations for income redistribution.
- (b) built out from the NEDO staff. This is, of course, a genuinely professional if not very expert secretariat at the moment. If one of the functions of the new body is to be to conduct hearings on technical matters in the manner of a Royal Commission (or a Congressional or Select Committee) then independent experts would have to be fitted into the structure somehow.
- (c) coupled with any independent move towards a Council of economic advisers, whose existence and regular reports

are certainly of some importance in the German system.  
[ See Annex I<sup>3</sup> ]

13. At this stage we have no strong preference between these alternatives. A danger to be avoided at all costs is creating a body which resembles the three wise men of the 1950's or the National Income Commission so closely that it cannot avoid their unfortunate fate.

#### Modus Operandi

14. Regardless of the precise institutional framework selected, once can illustrate the way in which the annual cycle of "concerted action" might operate. The standard sequence of events might be roughly as follows:

(a) Stage I: Collection of evidence

Submissions to the Commission would be prepared, forwarded (and often published) by a range of interest groups, experts and Government Departments. The Commission would indicate in advance those matters it was most interested in, which could range from forecasts and projections, discussions of policy objectives and options to inquiries on recent developments.

(b) Stage II: Technical debate and synthesis

In order to find out and publicise more about the views of certain groups and to help eliminate areas of significant disagreement, the Commission could hold public hearings or private meetings, largely at a technical level.

(c) Stage III: The Commission Reports

The Commission would then prepare and publish a report. Its broad lines would include a review of the last year's developments, a discussion of the objectives for the next year and a range of recommendations to the nation (not just the Government) for the year(s) to come. This report could be submitted to a Select Committee or to Parliament as well as to the Council. It would be geared above all to preparing the ground for a productive debate in the Council, and would try to highlight explicitly common ground and, perhaps, focus on ways of reducing the gaps in disputes between different groups.

(d) Stage IV: The Council Debates

The Council would debate the report. It could then

- do nothing, beyond (possibly) issuing a communique;
- make some kind of demarche to the Government, Parliament or a Select Committee;
- if appropriate, refer issues to an inner group of itself (like the present NED Council);
- define priorities for further work by the experts of the Commission.

15. At some point in this sequence of events the Government would undoubtedly be making and (one hopes) announcing decisions about monetary policy, taxes, public spending, cash limits and so on. If these decisions are to be constructively modified or strengthened by the activities of the Council and Commission, the character and above all time-table of the standard cycle of economic administration would probably have to be modified.

This is urgently needed anyway. If "concerted action" is grafted thoughtlessly onto existing procedures neither will contribute anything useful to the other, and little of the value of CA itself can be realised.

Issues for consideration

16. These rough indications of the anatomy and role of the CAB raise numerous questions, of which the following are only a selection. Most arise over the Council rather than the Commission of experts.
17. The Commission to be effective must be small. It has to be able to examine complicated issues quickly and report on them objectively with a good chance of reaching a wide measure of agreement which can be set down in a written report. A membership of three or four is probably the maximum compatible with these requirements. Almost certainly they would have to be nominated by the Government. Good men would be hard but not impossible to find.
18. Turning to the Council, the first issue is size. If this body is to be capable of coherent debate, then the smaller it is the better. On the face of it a membership of fifty or so would be a plausible upper limit. As analysis of the possible size of the European Parliament has shown, if it is desired to engineer a fairly strict arithmetical relationship between the numbers representing different factions, then the greater the minimum total membership has to be. Even if strict proportions are not required, there are important questions to be considered such as whether the biggest economic interest groups (CBI and TUC) should be together less than a majority.
19. One must also consider
- (a) Who is to be the Chairman? Should it be a hard-pressed Minister? An independent? A Minister would seem desirable, but not very easy to arrange.
  - (b) Will there be officials on or present (in a speaking but non-voting capacity) at its meetings?
  - (c) Should the opposition parties have the right to speak or to full membership?
  - (d) Should unrepresented bodies have the right to submit short papers or make statements? Perhaps yes, at the invitation of the Council.
  - (e) Should the Government - as we believe - determine the representatives for each faction and how?
  - (f) What procedures will the Council follow? Will it aim to adopt resolutions, issue communiqués, vote on contentious issues (with binding effect?) and issue some kind of record or minutes of what was said? Should it be televised or broadcast? How long should the discussions take?
  - (g) Who will determine the agenda and call meetings? The Government alone?
20. Some of the trickiest issues would arise over the question of voting should such a procedure be adopted. There are many alternatives:
- (a) one vote per organisation. This cuts down to size the bodies with big head counts such as the unions. But it obviously carries such a threat to their power that they might refuse to take part at all.
  - (b) One vote per council member. This would probably be fairer than (a) but would provoke tremendous complications over the number and balance of members.

- (c) Block votes on Labour Party lines. This procedure is absurd even in a Labour Party context, and becomes even more so when one tries to judge the relative weight to be assigned to e.g. the corporate membership of the CBI vs. the TUC head count, or the fact that we are all consumers.
- (d) Weighting by national income. There are several ways of slicing a cross section through the economy - workers/employers, consumers/producers and so on. And in addition there are several ways of categorising the population. The problems of overlap are formidable, indeed probably logically insoluble.

We are strongly opposed to the idea of voting or of explicit decisions, deals or agreements. Yet somehow or other the Council must, if it is to achieve its purpose, implicitly mobilise the majority against selfish or irresponsible minorities.

21. Scarcely less important is the question of publicity. Many organisations and their representatives can only relax their firm and rigidly held positions in private. Some will undoubtedly be mandated, either to block, or to trade within narrow limits. To the extent that members behave as individuals they may well be speaking literally only for themselves. Such considerations point firmly to confidential debates. On the other hand without any publicity at all it is much less easy to mobilise much critical opinion against any group which is behaving in an anti-social manner. In particular, without some kind of radio or TV coverage there is little chance that the Council's sessions will have a great impact on the world at large. In Germany concerted action never involves voting, the passing of motions and the like. The meetings are essentially for discussion and debate. On some occasions in the past they have ended with agreed Communiqués, on others (particularly in recent years) there has simply been a press conference at the end. There is no direct reporting of the meetings.

Counter-inflationary policy

22. These questions need to be considered carefully against the background of the four key objectives set out in para. 5, bearing in mind that initially the central purpose of the proposals is to help in mastering inflation. To do so might require something like the following procedure.

23. The first stage would be to reach agreement about a set of economic forecasts. Precise and total agreement about details would not be necessary, and much of the preparatory work would have been achieved by the Commission. Within a generally accepted intellectual framework it would submit to the Council an analysis of different inflation targets, some kind of central "present policies" projection of the economy (or range of central estimates), and an appraisal of what would happen if different inflation targets were combined with different policies for money supply and public spending, cash limits, varying levels of wage settlements and trends in the terms of trade. The variant projections illustrating the consequence of different targets and policy assumptions would be designed to highlight the painful and significant aspects of excessive wage (or price) increases by pointing to such consequences as:

- rising unemployment and lowered investment
- lower public spending
- an adverse balance of trade or deterioration in the exchange rate

They would also attempt to highlight specifically the extent to which special treatment sought by one group would be at the expense of the interests of others or of the overall national interest, and the importance of higher productivity and reductions in overmanning.

24. The second stage would be to reach some kind of agreement about the objectives which the Government should adopt, principally those for the overall trend of prices and for costs in the public sector. The third stage would be to demonstrate the inevitability and, ideally, the acceptability of the broad lines of policy demanded by those objectives. By this one would mean the TUC's views about wages just as much as the Government's policy for money supply and public sector costs, and (one hopes) a national policy for profits.

25. At some stage in the analysis there would have to be an analysis of the scope for dividing up the "national cake" at least in global terms. Regardless of whether one approaches counter-inflationary policy from the monetarist or the traditional treasury angle, the basic calculations have to be much the same and so do many of the macro-economic arguments. For example

- (a) given an inflation target one can derive a projection of money supply and Money National Income in the future;
- (b) given a target for profitability one can derive a total for wages, salaries and other incomes such as pensions and grants;
- (c) given (a) and (b) one can identify how much of the total of incomes can be allocated to the public sector and roughly what that means for cash limits;



- (d) given (a) (b) and (c) one is left with the private sector's share of the increased money supply and an implicit trade-off between higher pay per employed person and fewer people in employment;
- (e) Furthermore, given (a) and public spending totals one could demonstrate what scope there was for tax reductions; or one could trade off tax and spending cuts in a longer-term context.

26. Many different methods of presentation can be used as the sophistication of the system of national accounts and of economic models permits one to focus the inexorable spotlight of arithmetical and logical necessity on almost any major economic aggregate and in a variety of different ways. In the final analysis, it matters little whether one treats one's money supply target as a national cash limit or the arithmetical statement of a limitation on the growth of national earnings. The very different policy from which each approach starts should not be allowed to conceal the common economic ground on which each reposes.

#### Implications for the improvement of collective bargaining

27. There can be no doubt that something on these lines would raise very important issues for the timetable of the TUC, CBI and wage negotiation generally. Both the TUC and CBI would presumably wish to harmonise their own internal work on their economic reviews and budget representations to the new timetable. The TUC might well have to alter its conference timetable. Furthermore, the whole approach fits very naturally with a move toward synchro-pay. Indeed the significance of concerted action would be greatly enhanced if it could be tied in, however loosely, with a short open season for public sector wage determination and perhaps the negotiation of the Rate Support Grant. The Government would need to consider very carefully what was the best sequence of events. On the face of it one would not want to see major wage settlements negotiated for a given year until inflation and money supply targets, cash limits and public expenditure totals had all been agreed and proclaimed. But it might be desirable to delay the final decisions on fiscal policy till the pattern of wage settlements for the year was becoming reasonably clear.

### Part II. Difficulties, Critics and Supporters

#### Attitudes to a concerted action initiative

28. To the public at large, the immense obscurity shrouding the identity and role of such bodies as Select Committees or NEDO is such that a new initiative in this field will not arouse much enthusiasm. Their reaction is almost bound to be that "it's been tried before". Some people may see it as no more than a Social Contract in disguise. Some may see it as a gimmick very similar to the "initiatives" which this Government has taken and will continue to take in the field of industrial strategy. It seems unlikely that the parallel with Germany will be of such use outside limited circles. Some people will find the success of concerted action in that country unimpressive because of the difference in the political institutions between them and us. Some people will take the chauvinistic view that we should not need to ape any foreign invention. Nonetheless, there will also be many people who would be sympathetic to some initiative in as much as it represents a serious attempt to remedy defects in our Parliamentary system and administration of economic policy.

29. There will undoubtedly be many individuals who will speak and write in sympathy with any proposals we care to make. The list of distinguished (largely disillusioned) men of the centre who are putting forward comparable proposals is growing daily. As far as can be established no newspaper has yet advocated anything resembling concerted action as part of its editorial line, nor have any of the television companies given it much attention. On the other hand our own early ideas have been well received by the principal commentators.

#### The Unions

30. On the whole one would expect the unions to be somewhat chary of the proposals. Several distinct problems can be foreseen:

- (a) Both individually and collectively they are bound to perceive the manoeuvre for what it is to some extent is, namely an attempt to clip their wings in various ways. Their natural instinct would be not to be forthcoming. If they refuse to co-operate they could easily dish the whole adventure before it begins. We have already learned informally that they are somewhat sceptical about the value of "talk-ins" if there are serious issues to be resolved in discussion or de facto negotiations to be undertaken between the Government and other major economic agents. One of the other problems for them is the immense complication of conducting what are in effect multi-lateral negotiations, a point of view based on their experience in the tri-partite negotiations with Mr Heath.
- (b) It is believed that the easiest way to coax them into co-operation might be to build on the Royal Commission on Income Distribution. This might make it possible to start up the "council" side of concerted action, but would take one little further toward a wider and more representative debating body of the "Commission" type. Lord Armstrong has reported that one of the reasons for holding the tri-partite talks outside the NEDC in 1972/3 was the feeling that it would be imprudent to jeopardise the regular channel of communication which the NEDC constituted by turning it into a negotiating forum which might be discredited by major disagreements over contentious issues.
- (c) The unions will certainly wish to think very carefully about whether they would be represented on any "commission" as individual unions rather than the movement collectively. They will be quick to perceive the dangers of being divided and speaking with many voices.

#### Industry

31. It would be very surprising if the CBI did not welcome the proposals whole heartedly. The direction in which they have been moving over some months seems to correspond very closely with the ideas set out above. Any proposal for bringing in industrial bodies other than the CBI would no doubt be welcomed by those involved. For example the Institute of Directors, the British Institute of Management and the Chambers of Commerce must all be irked by the absence of any central high-level pressure points for their operations and frustrated by their inability to join directly in the major strategy arguments with government, unions and CBI. The "City" would face the usual problem that it is not a single entity but a group of heterogeneous activities without a common point of view or means of developing it.

## NEDO

32. One imagines that the NEDO establishment would react to these proposals with a mixture of anxiety and enthusiasm. The role of both the NEDO council and the secretariat would certainly be strengthened considerably if they are taken as the nucleus for the new bodies. But they would also perceive clearly the risk that the whole of the NEDO venture could be put in jeopardy if concerted action were to go wrong.

## Parliament and the role of the public

33. Even with full and active Parliamentary involvement in the system, it could not be claimed that we can yet propose a very effective way of bringing the public more fully into the debate. This is an insoluble problem. Indeed were it not to arise there would be no case for having Parliament itself. But it means that the case for developing as good as possible a Parliamentary link is very strong indeed. Subject to one qualification we do not discuss this issue further, but would urge that it be examined as soon as possible in cooperation with the Policy Group involved. There is obvious attraction in building on the growing success of the Select Committee on Expenditure, but whether this is advisable without a dramatic improvement in the Committee's staffing and the liberation of the members from their other duties is very much to be doubted.

## IV. Implementation of Concerted Action

34. While so many options remain open and so many questions unanswered, it is obviously impossible to think out what would be involved in putting into practice any specific proposals. The following observations simply isolate some of the more obvious general issues.

35. The first question is what can be said in an election manifesto and campaign and what would be required if it were to have credibility. It can be argued that before an election:

- (a) we should need to outline our ideas and some concrete proposals in a discussion paper;
- (b) we should need the de facto acquiescence, if not positive support, of the CBI and TUC. Otherwise it is open to either in principle - in practice mainly to the unions - to make nonsense of our proposal by refusing to have anything to do with it before it gets off the ground.
- (c) it would be valuable if not essential to have identified any experts or other key personnel needed for running the new institutions and to have discussed our ideas with them.

To leave all consultations or further public explanation of our ideas till after an election victory would not seem wise. We should also establish at an early date whether any legislation is needed.

36. Questions of timing could well be the biggest source of confusion. A spring or summer election would probably leave just enough time for a White Paper and the necessary preparations for starting work in October or November. If the procedure is to begin as suggested with a round of technical submissions and discussions, it would be difficult to complete them and prepare a report for a more political debate which is itself to be completed by Christmas unless work begins shortly after the end of the summer holidays.

If that can be achieved, the timing of the major events which one would want to link with concerted action might not be convenient. The wage round (if one can still talk of such a thing) gets under way seriously in October. Normally public spending decisions for the White Paper are largely completed by then - though obviously the conventional timetable would not mean much after the arrival in power of a new government. The Budget preparations do not normally get under way till February. All this is important if we should wish to start the concerted action process as quickly as would be needed if the government were to fail in securing a Stage III.

37. Another important question is what things the new government would do or commit itself to before activating the concerted action machinery. Clearly it will want to announce a number of major changes of a nonnegotiable kind at a fairly early stage - not least, perhaps, in the areas both of public spending and fiscal policy. Unless they can be quickly despatched, they will obviously threaten trouble at concerted action meetings. But if policy is too firmly and irrevocably defined (at least in the short run) some participants will feel there will be nothing to discuss and some may feel that too much common ground has been destroyed at the outset. No doubt the TUC in particular will be keen to establish at the earliest stage in any pre-election discussions how far elements in our programme will be put into force before any "concerted action" takes place.

(Summary, Conclusion and Recommendations to be drafted later if required.)

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