E(80) 17th Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 22 MAY 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 2)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 2)

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland
(Item 1)

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services (Item 2)

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science
(Item 2)

The Hon Nicholas Ridley MP
Minister of State
Foreign and Commonwealth Office
(Item 1)

The Rt Hon Norman Fowler MP
Minister of Transport
(Item 2)

Mr Hamish Gray MP
Minister of State
Department of Energy

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. PROBLEMS OF THE TEXTILE AND CLOTHING INDUSTRIES

The Committee considered a memorandum by the Secretaries of State for Industry and for Trade (E(80) 41) about the problems of the textile and clothing industries. They also had before them a memorandum by the Secretary of State for Trade (E(80) 43) about Britain's international trade policies.

THE SECRETARY OF STATE FOR INDUSTRY said that the British textiles and clothing industries had been declining for a number of years. In common with the rest of British industry, they were currently faced with the problems of high interest rates, a high exchange rate, and falling profits. In addition, even though they were highly protected against imports, they could not compete with the very low labour costs of the developing countries and they were losing markets to the other developed countries. In spite of their public stance, some of these other developed countries were offering covert help to their industries: the Italians were believed to be giving subsidies to textiles; the United States of America's synthetic textile industry had a marked price advantage because of energy price controls; and heavily subsidised East German products were coming into European Community markets through West Germany. The main protection for the industry against low cost imports from developing countries was the Multi Fibre Arrangement (MFA) and associated restraint measures. These ran to the end of 1982 and there was no prospect of securing the agreement of the Community to substantial renegotiation before then. In the meantime, our objective should be to encourage the Commission to be vigorous and swift in enforcing the existing restraints and in dealing with new problems. In his view, it would also help to improve the confidence of our industry if the Government were to state firmly now that it would try to ensure that the successor to the present MFA would have more regard to actual market conditions by providing for lower access to our markets during periods of recession. His Department were considering the possibility of a consultants' study on the causes, including any unfair trading practices, of increasing imports of certain textiles from the Community. The outcome of this could be helpful in further discussions with the Commission. It would also be useful in checking fraudulent trading if more staff of Customs and Excise could be switched to the enforcement of origin rules.

THE SECRETARY OF STATE FOR TRADE said that imports of textiles and clothing from the developing world were severely controlled already by an extensive network of restraints. Under the MFA there were associated arrangements with 47 different countries; and 27 new quotas had been introduced during the life of the present Government. His Department already devoted a great deal of effort to the problems of our textile, clothing and shoe industries and would continue to press the Commission to administer the arrangements promptly and efficiently. There was no chance of renegotiating the present MFA; and he was strongly opposed to any attempt to encourage our industry by stating publicly now our detailed negotiating objectives for the next MFA. This was two years away and it would be bad negotiating tactics to reveal our hand at this stage. Moreover, in deciding those objectives it was essential to bear in mind that we had a £2½ billion trade surplus with the less developed countries whose main exports were textiles, and therefore to weigh our wider trading interest and objectives against the particular problems of the textile industry. He welcomed the proposals for further measures to identify unfair trading practices. His Department was hoping to introduce compulsory origin labelling for textiles and clothing to encourage customers to buy British. This could well run into opposition from the Commission, although it would be presented primarily as a measure of consumer protection. He strongly supported the present moves by the Economic Development Councils to encourage the links between our producers and distributors. It was very important that our major retailers should be more willing to sell British textiles.

In discussion it was generally agreed that the difficulties of the textile and clothing industry presented a major political problem. A number of the firms which were being closed, or were under the threat of closure, were efficient. It was therefore essential for the Government to do all that was possible to help them. It was not practicable to amend the existing MFA but every effort should be made to ensure that abuses of it were stamped out. It was agreed that on balance it would be inadvisable to reveal now what were our detailed negotiating objectives for the next MFA. To do so would give unnecessary hostages to fortune.

In further discussion the following were the main points made -

a. Ministers should take every opportunity to encourage the Economic Development Councils to carry forward their useful work in encouraging better design and marketing and in improving the links between our producers and retailers. As it was, overseas competitors were mounting major and effective advertising campaigns in this country, and so the major retailers were often giving priority to their products. Our own industry should respond with more vigorous marketing and, if they came forward with suitable proposals, it would be worth considering whether the Government should give them some financial support for a well directed marketing campaign. Ministers, and the trade, should encourage the mass circulation womens' magazines to take an interest in promoting the sales of British textiles and clothing.

b. It would be difficult to find more Customs and Excise staff to enforce origin rules at a time when staff cuts were being made. On the other hand, it seemed that the redeployment of a relatively few staff could make a useful impact in checking fraudulent imports of textiles and clothing. If necessary some staff might be made available from the Department of Industry to help with the work.

c. Substantial financial assistance had already been given to these industries in recent years. For the most part, unemployment was not relatively high in the textile areas and there was no case for reversing the decision which had already been taken on assisted area status. The industry was already receiving substantial assistance under the Temporary Short-time Working Compensation Scheme (TSWCS). It might be helpful if this were to be extended for a further six months. But there would be major objections to this if it were to lead to a claim on the public expenditure contingency reserve.

THE PRIME MINISTER, summing up the discussion, said that the Committee were concerned that the Government should do as much as possible to help the textile and clothing industry. Its current difficulties presented a major political problem, particularly since a number of the firms under threat were highly efficient. However, there was no prospect of renegotiating the present MFA and the associated restrain measures before they expired in 1982. In the meantime they would be the main source of protection for our industry, and it was essential that the Government should seek ways to improve the enforcement of the agreements and to ensure that the European Commission acted swiftly and vigorously. Discussions on the next MFA would be starting later this year. But in the meantime the Committee agreed that the Government should not publicly reveal its negotiating objectives for the next round. The Committee welcomed the proposals for origin marking and for the strengthening of procedures to detect fraud and unfair competition, including the use of consultants. The Chancellor of the Exchequer should consider further with the Secretary of State for Industry the possibility of switching a small number of staff to strengthen the capacity of Customs and Excise to deal with the enforcement of origin rules. Ministers should encourage the Economic Developments Councils to press ahead with their useful work in improving links between our producers and distributors. They should also take any steps possible to encourage the mass circulation womens' magazines to show more interest in British produced textiles and clothing. The Secretary of State for Trade should consult further with the Secretary of State for Industry on the case for publication of the fact sheet on textiles which was currently in preparation.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer to consider further the possibility of employming more Customs and Excise staff on the enforcement origin rules.

3. Invited the Secretary of State for Trade to consider further with the Secretary of State for Industry her proposal to publish a fact sheet on textiles.

2. LOCAL AUTHORITY CURRENT EXPENDITURE IN 1980-81

The Committee considered memoranda by the Secretary of State for the Environment (E(80) 42) on local authority current expenditure in England and Wales in 1980-81 and by the Secretary of State for Scotland (E(80) 44) on local authority current expenditure in Scotland.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the local authorities Returns of Expenditure and Rates (RER) suggested that, with a conventional allowance for short-fall, their current expenditure could well be between 2 per cent and 3 per cent in excess of plans. The returns were not wholly reliable and it could be that short-fall would be greater than in the past. However, he judged this to be unlikely, and this view was supported by the separate returns of manpower which showed dissappointingly slow progress in making reductions. In these circumstances it would be wrong to hope that the problem would disappear. It followed that, unless the Government responded vigorously and promptly, the credibility of its public expenditure objectives would be at risk.. He had to announce the Government's reactions on 3 June when he would be discussing the RER in the Consultative Council on Local Government Finance (CGLGF). He proposed that he should then call for revised budgets by the beginning of August, and that discussions should be opened immediately at official level. It would be open to the local authorities to put forward their own proposals for action. But he sought the authority of the Committee to deploying, if necessary, all or any of four options in the discussions: the presentation to each local authority of their figures measures against the national target; improvement of the information in the RER in future years to enable more accurate estimates of individual and general performance to be made; the threat of a cut in the Rate Support Grant (RSG) cash limit for 1980-81, recognising that this would penalise local authorities across the board irrespective of their performance; and the threat that in future years annual capital allocations to individual authorities could be cut to compensate for excesses on current expenditure. He would not necessarily wish to implement all of these possibilities but discussion of them could well stimulate the authorities to be more forthcoming in dealing with the present problem. He did not recommend reconsidering the possibility of imposing statutory cash limits on individual authorities.

This could not be done in 1980-81, and there would be major administrative difficulties and constitutional objections to doing so later. Subject to enactment of legislation, it would be possible from 1981-82 to use the proposed Block Grant system to penalise high spenders. But, while the transitional arrangements for 1980-81 might be used to penalise a few of the worst offenders they could not be used more widely without treating some authorities unfairly. He invited the Committee to agree to his proposals for negotiations with the CGLGF on 3 June.

THE SECRETARY OF STATE FOR SCOTLAND said that the returns for the Scottish local authorities also pointed to an excess in the order of 2 to 3 per cent in 1980-81 after allowance for short-fall. He had already asked the auhtorities to submit revised expenditure plans to him. He would decide on further action in the light of these and after his meeting with the Convention of Scottish Local Authorities on 20 June. He was very willing in these discussions to deploy the same options and tactics as recommended by the Secretary of State for the Environment, with allowance for the different arrangements in Scotland. He already had powers to reduce grant to an authority whose expenditure could be considered as excessive and unreasonable, and he had warned the Convention that he would use them if necessary. He had also informed them that he was considering seeking additional powers to reduce Rate Support Grant to individual authorities. He had already taken action against the Lothian Regional Council who were now required, until further notice, to seek his concent for individual capital projects. His provisional judgement was that in the light of this action his local authorities would take steps to bring spending down to target.

In discussion there was strong support for vigorous action to cause the local authorities to bring their spending plans back into line with their 1980-81 ceilings. It was suggested that in calling for a review the Government should indicate the particular services with which it was concerned. A selective approach of this kind would recognise that the plans for some services were on target and that not all authorities were at fault. However, it was generally agreed that a blanket approach was essential. It would be impossible to achieve the objective of reductions if the local authorites were told that, in addition to the Law and Order services, other services, such as education were outside the scope of the review. The right course

was to insist that they should plan to stay within their overall totals but that they were free to decide their own priorities within those totals. It was not the case that the local authorities were spending significantly more on law and order in total and, if necessary, the opportunity should be taken to make clear to them that the fire services were not exempt from cuts and that manpower could be reduced within this area. It was generally agreed that there were overriding objections to the introduction of cash limits for each individual local authority.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that vigorous actions should be taken to get local authority spending back on target in 1980-81. The Secretary of State for the Environment should tell the Consultative Council on Local Government Finance at his meeting on 3 June that the Government intended to call for revised budgets by the first week in August, and he should deploy his proposed options for further action in discussion as necessary. He should send her a minute, with copies to other members of the Committee, reporting the outcome of this meeting. The Committee also endorsed the action already taken by the Secretary of State for Scotland with his local authorities. The Secretary of State should report further in the light of his discussions on 20 June with the Convention of Local Authorities. It was agreed that the possibility of imposing cash limits on individual local authorities should not be pursued further.

The Committee -

1. Took note with approval of the Prime Minister's summing up of their discussion;

2. Invited the Secretary of State for the Environment to circulate a minute reporting the outcome of his discussions on 3 June with the Consultative Council on Local Government Finance.

3. Invited the Secretary of State for Scotland to report further on the outcome of his discussions on 20 June with the Convention of Scottish Local Authorities.

Cabinet Office

22 May 1980