

ECONOMIC RECONSTRUCTION GROUP

minutes of the meeting held at 11.00 a.m.
on Friday 8th July 1977 at the House of Commons.

Present: Sir Geoffrey Howe (in the Chair)
Sir Keith Joseph
Mr David Howell
Hon. Nicholas Ridley
Mr Adam Ridley } Secretaries
Miss Anne Bulloch }
Mr Nicholas True

Apologies : Sir Ian Gilmour
Mr James Prior
Mr John Nott
Mr John Biffen
Mrs Sally Oppenheim
Sir Leonard Neal
Mr Brian Griffiths

Nationalised Industries

The Final Report of the Nationalised Industries Policy Group was discussed (PG/10/77/38). Introducing the paper, Mr Ridley said that it was basically the same as the consultative document, which had been prepared a year ago, and which had been discussed with Mr Biffen, Mr Fowler, & Mr King. members of the Group represented a wide range of opinion within the Party on nationalisation.

They had come under pressure both from those who wanted substantial de-nationalisation - which was impractical except in a few cases - and from those who wanted to retain the status quo but to have far less ministerial intervention. There was an unresolved conflict between these two views. It was difficult to find a way of breaking the monopoly power of the nationalised industries while at the same time avoiding intervention. Six sponsoring Departments were involved, as well as the Treasury, and Ministers might well differ in their view as to what was appropriate for the industries for which they had responsibility.

The industries differed greatly: BNOO was quite different from the others, some of which had assets that earned profits and others sections that could become profit centres. Some impetus would have to be given to the proposals on denationalisation, but we should avoid invoking major political battles. It was agreed that we should aim to publish a pamphlet based on the report. The report was then discussed section by section.

A. Motivation

Further consideration was needed of the role of the Top Salaries Review Boards: Mr Kenneth Baker's Group had been working on this. The Board operated under the constraint of relating nationalised industry salaries to those in the Civil Service. Its reports had been consistently ignored or over-ridden since 1972. Its position might be more satisfactory if it were not operating against a background of pay restraint, or if Ministerial peer to overrule its recommendations was removed.

B. Management Information

The long-term aim was to make the industries attractive to private

capital. Greater

capital. Greater accountability might be achieved while interference was reduced, if management was required to publish more information, e.g. on costs, perhaps twice a year, while being defended for refusal to meet constant requests between reports.

C. Competition

The conclusions were summed up in paragraph 3 page, 4:- there was no point in extending competition between the public and private sectors until the formers' capacity to distort its accounts, to cross-subsidise (or to eliminate competition) was controlled by proper financial discipline.

D. Financial Control

In the past each nationalised industry had had a different financial target, some of them based on a given return on capital, but 'capital employed' was itself an arbitrary figure in many cases. Targets would vary according to risk involved, life of assets, gearing, and to the declining or expanding state of the industry concerned. Working out the detail could be left to the Civil Service, but in order to avoid delay when taking office it might be helpful to have advice from an ex-Treasury official, or from the CBI, on the options available.

Cash limits as at present applied were in many cases meaningless - the BSC, for example, was already right up to its £900 million limit, and was far from making any positive return on capital. It was arguable that we would have to find offsets elsewhere in the public sector if we were to scrap present limits. A rigid limit on internal and external financing did act as a constraint on wages. Mr Adam Ridley would prepare a note on cash limit control

E. Price Control

The decisions reached at the last meeting of the Group, that the National Consumer Council should be given responsibility for overseeing complaints against nationalised industries and their prices, and should replace the individual industry consumer bodies, should be inserted into this section of the report.

F. Uneconomic Activities

These recommendations were unexceptionable. The Minister must have power to intervene and to veto proposals, in particular on capital projects. Problems could, however, arise over raising private capital if investors believed that investment decisions depended upon ministerial whim or political considerations. Some element of planning was inescapable where investment proposals of different industries were incompatible - where, for example, both electricity and gas were aiming to obtain 60 per cent of an energy market.

The paper did not refer to distortions such as those at present imposed through the ban on oil imports and tax on oil. Doubts were expressed over the recommendation (point 8, page 21) that nationalised industries should be prevented from extending their activities into new fields. This could make it more difficult to attract private capital, and be an undesirable hindrance where the industry was a candidate for de-nationalisation. Joint ventures with private enterprise could be sensible.

It was agreed that discussion of the report should be continued at the next meeting of the Group, on Thursday 14th July at 9.30 a.m. Any report made to the Shadow Cabinet should refer both to the widely representative membership of the Policy Group, and to the fact that the recommendations had been discussed with the Shadow Ministers concerned.

The meeting closed at 11.10 a.m.