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## Confederation of British Industry

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From the President:

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25th July 1979

*Dear Prime Minister,*

You will remember that at our meeting on 9th July I mentioned that we were planning to hold two Conferences of Chief Executives and Industrial Relations Directors to seek employers' assessment of the manner in which the 1979/80 pay round is likely to develop; how they can help to establish the right climate for sensible and economically effective pay bargaining; and their individual attitudes and potential responses to the claims made on them.

The Conferences were held last week and I thought you might be interested to receive a brief report on them. They were attended by some 130 very senior representatives from the largest CBI member firms (including the Nationalised Industries), the major employer organisations and the smaller firms.

There was total agreement that main bargaining will take place at a critical time with low real profitability in much of industry, tight liquidity, declining international competitiveness, a sharp rise forecast in the cost of living, and the likelihood of increasing unemployment. It was recognised that the gravity of the situation placed a particularly heavy responsibility on employer and union negotiators.

The Conferences identified the pressures likely to be faced in the forthcoming round - in particular, demands for pay increases at least as great as movements in the RPI, for increases based on comparability rather than on companies' ability to pay, and for a reduced working week without loss of pay. Participants, however, saw some possibility that responsible trade union negotiators would show greater realism than in the recent past.

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The chastened mood of many trade unionists, following the disruption of last winter and the defeat of the Labour Government, together with the implications for employment of large pay increases at a time of strict control of the money supply, were cited as giving some hope towards such realism.

The outcome of the next pay round clearly depends very much on the way expectations develop. In this context, both Conferences emphasised the importance of the Government stressing publicly, and repeatedly, its determination to achieve its monetary targets and to stick to its cash limits. It is also most important for your Government to make it absolutely clear that you have no intention during this pay round of introducing any form of pay freeze. This was recommended to discourage union negotiators from pressing home excessive demands in order to get in before the "boom is lowered". Although it was recognised that managers would be unrealistic to attempt to bargain about net rather than gross pay, those attending felt that negotiations would be helpfully influenced if employees were regularly reminded, not only by their employers but particularly by Government, of the benefits they had received from the direct tax reductions in the Budget. It was stressed that in this way, and more generally by bringing to public attention, frequently, the economic realities surrounding pay, the Government could do much to influence expectations.

But we  
can't  
absolutely  
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R.  
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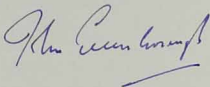
It was of course accepted that ultimately the responsibility for ensuring a realistic level of settlements lay with the employers themselves. There was widespread determination by companies' representatives to convey their own particular circumstances to their employees by effective in-house communication, to encourage their managers at all levels to stand firm against excessive claims, and specifically to resist demands for a reduced working week. A desire to strengthen the position of employers by improving employer liaison and, where possible, by mutual support, was clearly expressed. The need for well informed, confident, and determined management was stressed repeatedly.

A great sense of urgency was apparent at both Conferences. It was essential to start taking action now to influence expectations in the period ahead and for Government, employer organisations and companies to bring home the same consistent message.

The Conferences showed great appreciation for what the Government has done so far and voiced strong determination to do everything possible to seize the opportunities which lie ahead. The road will not be an easy one.

The candid and unrestricted exchanges of view at both Conferences were, I am sure, born from my assurance that the confidentiality of the meetings would be respected.

I am sending copies of this letter to the Chancellor of the Exchequer and to the Secretary of State for Employment.

Sincerely,  
  
John Gummer

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10, Downing Street,  
London, SW 1.

25 JUL 1979

