



cc NJS

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J B Unwin

Under Secretary

18 July 1980

Tim Lankester
10 Downing Street
LONDON SW1

Dear Tim,

Further to my letter of yesterday, I attach a possible speaking note on pay settlements. It is the best we can produce here at the moment, though I hope the Department of Employment can be persuaded to produce rather more if the need arises.

John
Bun
J B UNWIN

PERSONAL

REALISM IN PAY SETTLEMENTS

1. There are growing signs of realism in pay settlements. CBI figures indicate that half the workers in manufacturing are settling for 15% or less, and another CBI report last week told of many single figure settlements in the West Midlands. At large firms like BL (5½%) and small firms like Catnic components in Wales (reported pay cut), people are realising that excessive pay increases mean lost jobs, and they have taken the sensible course, and lowered their sights. In the engineering industry and the textile industry, there are numerous examples of low settlements which have been influenced by concern about lost markets and redundancies. At Talbot and Lucas, management have said that they cannot afford more than 8 and 10 per cent respectively while at Lesney the workforce have accepted 10% to avoid further redundancies. At Rolls Royce aeroengine plants the latest agreement provided only for pay increases in line with productivity. So people are beginning to put jobs before pay increases by concluding realistic settlements.

2. As an awful warning we have the case of the steel industry, where workers stuck out for higher pay increases than could be afforded. They gained higher increases, but in so doing ^{helped to} price their industry out of markets and themselves out of jobs. This is a harsh illustration of the fact that increased wages without improved performance means closures and lost jobs.