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COPY NO. 31

E(80)47
3 June 1980

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

THE NEXT PAY ROUND : CAMPAIGN OF PUBLIC EDUCATION

Memorandum by the Chancellor of the Exchequer

1. This paper, which has been prepared in consultation with the Paymaster General and with the Prime Minister's Press Secretary, suggests a campaign of public education aimed at creating a better atmosphere for pay bargaining in the 1980-81 round that will open this autumn.
2. Some colleagues may feel sceptical about the likely effectiveness of such a campaign, especially given the contrast between the effort that the Prime Minister and I and others have already made to put over a reasoned case for moderation in bargaining and the actual outcome of the pay round now drawing to a close. And certainly, we should not entertain exaggerated hopes of what we can achieve by stepping up those efforts. But that we should step them up I am in no doubt, for much is at stake. If we fail to get an early and marked scaling down of pay settlements, the transitional costs of securing our overriding objective, of bringing down inflation, will be all the greater, in terms of lost output and higher unemployment, with correspondingly greater industrial and social tensions. If "the message" is judged stale, we must find ways of making it fresher; if it is judged to be incomprehensible, we must make it simpler; if it is not commanding sufficient attention, we must broaden its impact.

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Starting-point

3. The main features of the situation we are confronted with are:-

(i) the existence of a clearly-defined target for the yearly growth of the money supply, and of a quantified programme (the medium-term financial strategy) for securing a progressive deceleration in the growth of money supply in the period to 1983-84. The money supply last year was within the target range. And the monetary situation now seems to be under control, though interest rates remain high;

(ii) a high and excessive level of settlements and earnings throughout the economy, and a continuing deplorably low level of productivity in most sectors. The excessive rise in pay in part reflects catch-up increases engendered by Clegg and the like - the inheritance of the collapsing incomes policy of our predecessors, but a factor which is now coming to an end;

(iii) a continued rise in the standard of living as earnings have outpaced an accelerating rise in the RPI. The rate of price inflation will shortly start to fall back. But if this fall is to be maintained, earnings growth will have to slacken sharply - to below the increase in the RPI, implying a drop, albeit a temporary one, in real living standards. Yet there remains among trade unionists a widespread belief that workers are 'entitled' to a maintained standard of living, regardless of economic circumstances;

(iv) a steady rise in unemployment, which is in part related to declining competitiveness resulting from excessive pay increases, and which, paradoxically, can make for more, not less, militancy in pay negotiations;

(v) an apparent failure so far on the part of most trade unions and workers to recognise the link between immoderate pay increases and unemployment, except where bankruptcy and closures are staring them in the face;

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- (vi) public scepticism about, and lack of understanding of, the primary role and efficacy of our policy of curtailing growth in the money supply;
- (vii) public sector comparability, since it is by definition a catching-up exercise, remains a delayed action time-bomb which can damage any campaign of public education (cf doctors' and dentists' pay);
- (viii) an increasing (and encouraging) refusal on the part of the rank and file to answer calls for strike action;
- (ix) the humiliation of the TUC over the May 14 'Day of Action', though the workers' refusal to strike for political reasons may not necessarily signal the onset of moderation in pursuit of pay claims; and
- (x) an increasing recognition, especially after the steel dispute, that the style and substance of Government has changed and that Government will not necessarily rescue people from their individual or collective folly.

4. The starting point of any education campaign is to get people to recognise that there are a number of hopeful elements in the situation and that, building on these, our economic fortunes as a nation could be transformed provided attitudes - and particularly attitudes to pay bargaining - change. The task of persuasion involved here is a formidable one which has faced all Governments in Britain since the war. Their mistake has surely been to rely unduly on exportation. We must not make the same mistake; we have to appeal to the facts and to commonsense.

The Message

5. The message we have to get over must be, first, that the Government's policies will succeed in bringing down inflation. To reduce inflation permanently it is necessary to reduce monetary growth

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permanently. This essential truth needs to be explained more comprehensively that it has been so far, and in a variety of ways. The country must be convinced that the policy will be persevered with. There will be no turning-round and, above all, no reversion to pay norms. Pay bargaining influences the speed at which inflation is brought under control; the greater the moderation in pay the sooner output and employment will recover.

6. Second, it is important to draw out the implications for pay without describing monetary policy as though it was a pay policy. This is a delicate operation. It depends on pointing out the dangers in terms of unemployment if pay settlements do not come down below the RPI. The Government is setting the financial framework which is its responsibility and within its control: it is progressively reducing the growth of the money stock, which bears principally on the private sector and, concurrently, it is applying discipline through cash limits (and in other ways) to the public sector. The level of employment is the responsibility of pay bargainers. The present circumstances, with unemployment rising, offer the hope that this will be heeded.

Audiences

7. Messages and target audiences are inevitably linked and, of course, directly related to the overall background. The current need is to define what needs to be said to which audience:

- to trade union negotiators (to emphasise the responsibility for increasing unemployment if they seek excessive settlements, resist technology and change and ignore ability to pay);
- to management negotiators both in the nationalised industries and in the other parts of the public sector (to emphasise that they hold the purse strings and the consequences of their own weakness - ie to stiffen management's determination to manage);
- to private sector workers (to spell out the market discipline);

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- to public sector workers (to spell out the cash limit discipline).

Timing

8. A campaign to influence public attitudes this autumn is already overdue. We are now well into the trade union conference season which fixes claims and conditions attitudes, if not necessarily expectations. The 'real world' campaign initiated by MIO(E) under the No.10 Press Secretary's chairmanship has already introduced a great deal of appropriate background. We now need to focus more specifically on the issue of pay bargaining.

9. This month sees the annual conferences of the building workers, the Post Office engineers, ASTMS, SOGAT, NGA, the ISTC, the Confederation of Shipbuilding and Engineering Unions, the TGWU, NALGO and ASLEF. The NUR and NUM meet in July; and early in September comes the TUC annual conference. It will be essential to gear Ministerial speeches and interviews, and especially those involving television appearances, to this timetable.

10. It will be necessary, too, to consult the CBI and other employers' groups on when, and how, the chosen messages may best be put over to management.

Ministerial involvement

11. The extent of Ministerial involvement in the campaign I envisage is for discussion but I am sure that we should cast the net as widely as possible; in particular the help of the non-economic Ministers should be invoked.

Organisation

12. We need to be sure that we are properly organised to mount a concentrated campaign dealing with the pay aspect of the strategy. I propose to discuss this with the Paymaster General, whose office works closely with the Prime Minister's Press Office and to the Information Divisions in other Departments.

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The essential tasks are:

- (i) selecting occasions for Ministerial input
- (ii) liaising with the speech writers
- (iii) monitoring and identifying opportunities for influencing the press
- (iv) commissioning and refining material based on the message in paras 5-6 for use on a wide variety of occasions
- (v) further strengthening existing liaison with No.10 Press Office and with the Information Divisions of the Treasury and Department of Employment so that this comes at the top of their press priorities.

I would expect that MIO(E) would continue to be the vehicle for widening the effort to include other Departments.

13. A special adviser or advisers should be associated with the campaign. They could liaise with the Party information channels which will have an essential political dimension to add.

Tactics

14. As to tactics, I am glad to see that the Paymaster General with the support of Departmental information officers under the chairmanship of the No.10 Press Secretary are already considering this. But here are a few suggestions, which a task force could take up:-

a. Speeches provide the peg. The Prime Minister's speeches and my own speeches are a basis for any campaign; it is essential, however, to have a small number of keynote speeches - given the large number which are made.

b. But speeches are not nearly enough. We need an unremitting effort to use the media - press, television and radio - effectively to ensure that the speeches are reported and follow up background briefing is provided. We need much more than reporting: we need to influence the whole tenor of comment and discussion in the press and on the air. As already happens,

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this involves going beyond the economic correspondents to the industrial and labour editors, and many others. Many people - Ministers, MPs, information officers and other officials - must be involved; but the effort must be orchestrated and co-ordinated.

c. Much can be done by recruiting other bodies who will be only too willing to help. The CBI is a starting point. The nationalised industries and public sector managements are other obvious targets.

d. Matters follow a pretty set course with Trades Union Conferences etc. The timing of official statements has to be geared to events as suggested in paras 8-9. We also need to build on the fall in the inflation rate which we expect later this summer when the VAT increases pass into the base of the RPI.

e. The message needs to be refined for particular audiences and got out in a highly simplified form for many purposes. Advertising, which has been used in the past, should not be ruled out. If we want to go down this route, Party channels might be explored.

f. Much closer co-ordination with what the Party does is an obvious requirement.

Conclusions

15. I conclude that we need to mount an intensive campaign of public education and persuasion aimed at lowering substantially the level of settlements in the forthcoming pay round. With this round almost upon us, and with annual trade union conferences in full swing, time is critically short. I seek colleagues' support for a campaign on the lines adumbrated in this paper.

H M TREASURY
3 June 1980

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