Dem. Econ.

21 February 1978

Copy sent to Sir Keith Joseph 22/2

MRS. THATCHER

Sir Keith Joseph, Sir Geoffrey Howe and Nigel Lawson are unhappy with Rob Shepherd's minute of this meeting and are asking for it to be altered. I will keep you informed. — I don't think it reflects accurately our conclusions - but then I didn't expect a minute to be taken - and attach no significance to it whatsoever

MT.

RR

CONFIDENTIAL

Minute on the Meeting to Discuss Pay Bargaining, held in the Leader's Office on 15th February 1978

Present: Mrs. Thatcher
Sir Keith Joseph
Sir Geoffrey Howe
Mr. James Prior
Mr. Tom King
Mr. Nigel Lawson
Mr. Adam Butler
Mr. John Stanley
Mr. Adam Ridley
Mr. Rob Shepherd

The following papers were circulated in advance: "Pay Claims and Settlements in the Current Wage Round and the Development of Collective Bargaining" (15.12.77) by Mr. Ridley; "Pay" (16.1.78) by Mr. Lawson; recent exchanges between Sir Geoffrey Howe and Mr. Lawson; and the minute on the meeting at the Research Department on 6.2.78.

1. The meeting began with a re-capitulation of the Party's position on pay bargaining - a return to free collective bargaining in the private sector, pay bargaining in the public corporations to be governed by the amounts which could be afforded and with no subventions from the Government to finance excessive pay deals, and bargaining within cash limits throughout the remainder of the public sector. Firm control of the money supply would have a critical effect in reducing inflationary expectations, since excessive pay settlements would result in higher unemployment.

2. It was suggested that there was a risk that the Party's approach might appear unrealistic in certain respects. There had to be adequate recognition of the problems of the public sector and of the process by which enunciation of monetary targets would generate more responsible collective bargaining.

i) The Government would not be able to remove itself from the pay bargaining arena, partly because unions in the public sector would not accept the imposition of cash limits and would demand consultation when the limits were being set.

ii) It might not be politically feasible to return to free collective bargaining in the private sector if at the same time public sector pay was clearly being tightly controlled.

iii) It would not prove possible to avoid giving at least some indication of a target "range" for general pay limits. In framing its monetary and other policies the Government would have to come to some conclusions about the likely scope for pay increases if excess public expenditure or large scale unemployment were to be avoided. Such information would be patent from published cash limits, and the basic estimates could not be concealed from the representatives of employers and unions.

iv) The political and social consequences of higher unemployment resulting from inflationary pay awards would place enormous pressures on the Government, particularly if there was too extreme a transition to a "free-for-all" after the compression and tension inherent in the Government's present policies.

v) Once monetary targets had been set the question would inevitably be put to Government spokesmen - "at what level of pay claims would the level of unemployment begin to increase?" If the Government is seeking to educate negotiators and trying to encourage them not to submit irresponsible claims some guidance would have to be given as to the range of "responsible" settlements.

vi) A "going rate" would in any case begin to emerge during any pay-round as certain key settlements were reached by large groups in the public sector and large or leading firms in the private sector. This going rate was an unavoidable institutional and sociological phenomenon. As it embodies pay expectations, it would be desirable to try to build as close as possible a connection between it and the monetary targets; and to fight as hard as possible against its growing tendency to become a "norm".

3. It was pointed out that a danger of the arguments set out at iii) above (i.e. for some guidance from the Government on the likely range of pay settlements) could be the development of an incomes policy little different from to-day's. The Government needed to set its monetary targets for the year, which would be based on productivity growth and a certain allowance for a tolerable level of inflation (over the years this latter figure would be gradually reduced). With tight monetary control, companies awarding large pay rises would find their customers unwilling to pay higher prices and therefore negotiators would have to choose between more responsible pay bargaining or increased unemployment. Unless this policy was pursued there would be no hope of negotiators (and the employees they represent) understanding that increased living standards can only come through increased productivity. It was erroneous to argue that any Government had to have an <u>incomes</u> policy simply because more than 7 million people were employed in the public sector. The vast majority of these were not employed directly be the Government but by public corporations, local authorities and only a minority by the Government itself.

4. It would be essential for a Conservative Government vigorously to counter the notion of a "going rate" for all pay deals in any pay-round. Considerable variability in settlements for different groups was imperative for an efficient labour market. As to the notion that it would be impossible to restrict public sector pay while permitting free collective bargaining in the private sector it should be noted that in the 1970s the level of increases in private sector pay had fallen behind the levels in the public sector. More important than the need for economic education could well be the need for a Conservative Government to redress the present imbalance in power between employers and unions, which could be dealt with through reforms in social security payments

and taxes and also certain amendments to industrial relations legislation.

5. In discussion of the proposals for monetary targets, consultative procedures and a wider role for Parliament considered at the earlier CRD meeting on 6.2.78, a number of conclusions were reached.

i) There was a danger that the proposals could become seen as panaceas and provoke disruptive and unproductive institutional change. It would be imperative to avoid such dangerous attitudes and changes.

ii) More work was needed to relate the proposals for the evolution of the Parliamentary side of the scheme to the wider and still somewhat vague possibilities being considered for e.g. the better Parliamentary control and scrutiny of public spending. In due course this would need to be fitted in with the related work shortly to be initiated by Mr. Pym.

iii) The proposals for social security, industrial relations etc, needed to be drawn together as soon as possible from the paper by Sir Arthur Cockfield which was shortly to be discussed by a group of colleagues, the work of the Dean/Hayhoe group and the varied proposals in the industrial relations area made by Mr. Prior on a number of different contexts.

iv) The proposals in Chapter II of the Right Approach to the Economy would be the framework in which further policy work on the "public education" process would be developed. More work was needed to ensure that the central importance of higher profitability would be given proper treatment in this process.

v) Our policies for inflation, pay bargaining, public education and related matters needed to be drawn together into a single papaer which, once agreed by the group, would form the basis of a major speech, preferably by the Leader.

vi) Contacts should be established with the CBI over problems of employer solidarity.

Conservative Research Department,
24, Old Queen Street, London, SW1

RJS/ANR/srg
17.2.78