

*See Mr. [unclear]  
Mr. [unclear]*

SECRET

Prime Minister 4 1

*Would you like me  
to commission the  
further papers suggested  
by John Hunt in  
para 9?*

Ref. A09745

PRIME MINISTER

*Yes please  
and*

Pay

*TL 12/6*

The discussion on Pay in the Economic Strategy Committee on 1st June was, deliberately, a 'second reading' affair. Meanwhile we have, as you asked, circulated the CPRS paper on Pay. Amongst other things, this will be useful background to the discussion of the Secretary of State for Employment's papers on Industrial Relations at E on 19th June.

*Minutes  
at Flug A*

2. Meanwhile the annual pay cycle continues. Shortly after the election you took decisions on armed forces and on police pay in discharge of Manifesto commitments. Since then we have had decisions in E on teachers (a reference to Clegg) and on implementing the TSRB and DDRB reports. Last week E(EA) approved increases for probation officers (another law and order group), Stationery Office printers (following a private sector analogue) and craftsmen in the water industry (a very large increase for a group which has an effective stranglehold over water supplies). I know that the Secretary of State for Industry, who was in the chair at E(EA), was worried about all these three, but was persuaded that there was no realistic alternatives.

3. In the private sector, as you will know from your discussion last week with the Secretary of State for Employment, there are some signs of an accelerating rate of settlement. Luckily we are very near the end of the present pay round, and there are not very many private sector cases left to settle.

4. In the public services there are two key settlements still to come in this round. The local authority APTC Group is due for an increase on 1st July. Both sides are taking it very slowly. But the case will come to Ministers in the next two or three weeks. In E(EA) the general view is that the Government will find it hard to avoid making another reference to Clegg. The industrial Civil Service is also due for a settlement on 1st July. A comparability study, carried out by PRU, is in hand. The results will be known in a week or two. It seems almost inevitable that there will be large increases, introduced by stages over the next 12 months. The cost for this year will have to be dealt with under the already approved formula: the eventual wage bill less 3 per cent.



SECRET

5. Finally, there is the public sector outside the non-trading public services. Here we have the impending troubles with the Tube men in London, a long overdue settlement for postmen and telecommunications staff and, a little further ahead, settlements for administrative staff in the Gas and Water industries.

6. Although there are possibilities for trouble in the next few months, it is broadly true that we can look forward to a relative pause in pay issues during the summer. The next pay round will not really get going until November when we will have the traditionally difficult Ford and British Oxygen private sector negotiations, the opening of negotiations for local authority manuals and craftsmen and the next round in British Leyland. On the other hand it will be necessary before then to take a view on the pay assumption for 1980-81 to be built in to the RSG settlement with the local authorities and the Government's internal consideration of cash limits for 1980-81 and its discussions with the nationalised industries on their future financing will also be well advanced.

7. It is clearly essential that the Government uses this pause to set the scene for the next round. Since there will not be a pay policy with guidelines, etc. there is an urgent need to launch the campaign of public education which you discussed in E. The Council of Economic Advisers, the use to be made of NEDDY, the 'forum', etc. could all be relevant and you will be looking to the Chancellor for ideas and action as soon as the Budget is out of the way.

8. I think it would also be useful to begin quite soon the process of examining how the pay assumptions, for inclusion in the cash limits, RSG, etc., are to be formulated. There is scope here both for a more rigorous intellectual approach and for an improvement in forecasting techniques, methods and timing. You will also want to improve the quality of comparability exercises and perhaps rationalise the various parts of the comparability machine.

9. Much of the necessary work was commissioned by you at E at its meeting on 1st June - in particular the Chancellor of the Exchequer was invited to circulate a paper setting out the possibilities for a "forum" in which pay matters could be discussed with interested parties in a wider context; and a marker was put up to the effect that questions of pay, prices and efficiency in the nationalised industries would need to be considered by the Committee when the work at present in hand



SECRET

by the Secretary of State for Industry had been further advanced. This latter is an important and difficult area for which no time frame has yet been established. You might ask the Secretary of State for Industry to bring forward to E an early report which could provide the basis for a discussion. You might also find it useful to invite the Chancellor, once the Budget is out of the way, to bring forward a similar paper on the question of the pay element in future cash limits for central and local Government and the nationalised industries together with an indication of the working timetable so that an early grip can be taken on this third important leg of the total strategy.

10. Obviously you are heavily committed for the next few weeks and the Ministers concerned need time to prepare their thoughts. You may however think that you should have a further discussion in E, covering the whole field, soon after your return from the Tokyo Summit - perhaps in the first week in July - and that papers should be commissioned accordingly.

*JH*  
(John Hunt)

11th June, 1979



SECRET

The Secretary of State for India has been advised that the Government of India are in receipt of a letter from the Secretary of State for India, dated 11th June 1979, regarding the proposed amendments to the Industrial Disputes Act, 1947. The letter is being forwarded to you for your information and for your comments. The proposed amendments are intended to provide for a more effective system of conciliation and arbitration in industrial disputes. It is suggested that you should discuss the proposed amendments with the relevant departments and advise the Secretary of State for India accordingly.

Yours faithfully,  
[Signature]  
[Name]  
[Title]



11 JUN 1979