

CONFIDENTIAL



tw
jpr

RECORD OF A MEETING AT 11, DOWNING STREET AT 5.00 P.M. ON
TUESDAY, 17 JUNE 1980

Present:

Chancellor of the Exchequer
Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Burns
Mr Unwin
Mr Davies
Mr P Rayner
Mr D Smith - DEM
Mr Whitmore)
Mr Lankester)
Mr Hoskyns) No.10
Mr Ingham)
Mr Strauss)

The Chancellor said he had called the meeting to discuss the draft paper by Treasury Officials attached to Mr Hall's letter of 16 June to Mr Lankester. The arguments in the paper might form the basis for the Government's planned Education Campaign. He invited Mr Ingham to open the discussion.

2. Mr Ingham said that the Government as yet had no policy on pay except a very broad one; and the use of specific figures presented obvious dangers, but at the same time it was very hard to carry conviction without figures. In any case, the assumptions on pay built into the cash limits for 1981-82 would give a very clear pointer to the kind of figures the Government had in mind for settlements. It would certainly be useful if it could be demonstrated that rising pay settlements led to rising unemployment. He noted that arguments relating to the need for reductions in real earnings were already being used by the Government. He was being pressed in the lobby about the assumptions which would lie behind cash limits, and - for reason he had already given - he doubted

/whether explicit figures

CONFIDENTIAL



whether explicit figures in the pay context could be avoided when cash limits were published.

3. At a general discussion for it, the following main points were made:-

a. Cash limits would have to be fixed, and the later this was done the easier it was to settle on an assumption for pay which would be achievable; but if the limits were to be effective in changing expectations they would need to be set early in the pay round. Thus the matter would need careful thought at an early stage. The assumptions underlying last year's cash limits had been fudged, in that a composite figure had been given for pay and price increases. This would be harder this year. The Government would be asked how it arrived at the particular cash limits it chose. The eagerness with which the figure of 10%, mentioned en passant by the Secretary of State for Trade had been seized on, showed that it would be very difficult to sustain an argument for moderate pay settlements without naming figures. Last year, the fixing of cash limits had been largely left to Treasury Ministers. This had advantages for the Treasury, but this year it was desirable that colleagues should endorse the new cash limits and the assumptions which lay behind them. Discussion in E Committee, although not yet complete was moving in a helpful direction.

b. The time lag between the present and the fixing of the cash limits could be turned to good purpose. It was important to avoid concentrating attention on a single figure which all pay bargainers would seek to "beat", and instead to use a variety of arguments, often tending towards different figures, but all to low ones. Use of the arguments for keeping settlements within the monetary target range, and of not allowing increases in UK unit labour costs to exceed those in

/competitor countries

CONFIDENTIAL



competitor countries led away from establishing a norm and towards very low figures. It had to be borne in mind that publicity would have to be simple to be effective, and this in turn suggested a fairly narrow range. It might be a good idea to publish a graph, illustrating the various parameters which applied to pay settlements.

c. The link between high wage settlements and unemployment was a cogent one, and should be fully brought out. There were good qualitative arguments linking both loss of competitiveness and high interest rates due to excessive monetary growth to the loss of jobs. It should be made quite clear where responsibility for high pay settlements lay. The paper should bring out the consequence of our continuing national habit of pressing to maintain and ever improve real living standards regardless of the position of the economy and at almost whatever cost.

d. A series of noisy union conferences was due shortly, starting with the miners who would register a claim of 35%. It would therefore be necessary to act soon to get the message across to the widest possible audience. But there would be no advantage in directing specific ministerial messages to particular conferences - these were likely to be counter-productive.

e. The monetary arguments must be pressed home. The Government must make it quite clear that the monetary target could not be shifted to accommodate high levels of wage settlements, because of its effect through the markets on inflationary expectations and on inflation in the future. The Bank of England should be encouraged to deploy this argument publicly.

/The paper should

CONFIDENTIAL



f. The paper should bring out the trade-off between levels of pay and the quality of public services; this argument should help to dispel the image that cash limits were simply Treasury shibboleths. Mr Jenkin had deployed the points well in his recent Cheltenham Speech. Officials had tried to establish figures which showed a direct link between numbers of unemployed and percentage rises in wages. This had proved very difficult; but some progress was now being made.

g. The argument that an increase in the real price of oil led to a corresponding real reduction in the standard of living applied to substantial importers of oil; but not to a country such as the UK which was self-sufficient in oil. In principle the UK Government would somehow recycle to tax payers the increase in its revenues due to the real increase in the oil price, either through limiting the extent of public expenditure cuts or by abstaining from raising additional taxes in other ways. Mr Burns would reflect further on this.

h. The arguments should not be represented in so sophisticated a way that the basic wages/prices link, which was widely understood, was obscured. The Government should make maximum play of the fact that the RPI will be falling. More generally, in pressing the need for lower pay settlements emphasis should be put on the positive point of beating inflation rather than on the unattractive (but inescapable) requirement to reduce real living standards.

CONCLUSION

The paper would be revised to take account of the discussion. E Committee should complete its discussion of public sector pay policy in advance of Cabinet on 26 June. It was desirable that the Committee should take this paper in revised form as soon as possible thereafter. The paper should distinguish more sharply

/than the existing

CONFIDENTIAL



than the existing draft between operational decisions - eg when and how to fix cash limits - and the identification and refining of arguments to be deployed in the Educational Campaign. The relevant material would need to be ready to be deployed at Cabinet on 3 July.

RIT

for

M A HALL

19 June 1980

Distribution

Those present
Chief Secretary
Financial Secretary
Sir Anthony Rawlinson
Mr Middleton
Mr Dixon
Mrs Heaton
Mr Ridley
Mr Cropper
Mr Cardona