

PRIME MINISTER

THE PAY ROUND DEBATE

I attach a paper suggesting an approach to the Pay Round Debate. It is rather long, because the problem it addresses is not trivial. It is weekend reading, with no critical deadline. We probably need to discuss by the end of this month or early July.

1. We cannot launch this Debate until we are sure where it is meant to take us. We can't determine that without a stocktake on where we have got to on the three main strands of our strategy - trade union reform, monetary policy, public expenditure and public sector pay. These things are all interlinked. We have not got far with the trade unions. Our position on public sector pay is only starting to become clear as a result of recent meetings.
2. Experience of past Governments suggests a tendency to drift into what the historians later recognise as the crucial period with little or no idea of what they are doing. We are now moving into what could be the first, and critical, six months of a make-or-break year. The thinking must be done before the uproar begins. This period could be our last chance to get public sector pay under control, and thus public expenditure, and thus the whole climate for private sector pay settlements, and thus inflation and the level of unemployment and bankruptcies.
3. The present potential confusion includes such things as getting off on the wrong foot with Boyle; dethroning comparability in such a way that we get maximum disruption in the public sector; colleagues not understanding the implications of the Medium-Term Financial Strategy; uncertainty about where to pitch cash limits in the context of that strategy; the difficulty of talking publicly about pay, without implying a norm; determining how we should treat trade union leaders over the coming months.
4. When we have discussed this, a shorter version, perhaps leaving out sections 4 and 5.7, could be used to brief colleagues. I am copying this note and the paper to Geoffrey, Keith and Angus, but to no-one else at this stage.


JOHN HOSKYNs