Prime Minister

cc Press

Treasury Chambers, Parliament Street, SWIP 3AG
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13 October 1980

C. Whitmore, Esq.,
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Dear Clive

SUPPLEMENTARY BRIEFING FOR THE MEETING WITH TUC GENERAL COUNCIL: 14 OCTOBER 1980

Following the intelligence that the TUC intended to use the arguments raised in the paper by Peter Forsyth and John Kay of the Institute for Fiscal Studies, I attach supplementary briefing on this point.

The Prime Minister may also find it useful to have summary briefing, mostly extracted from the main material already provided covering the following:-

(a) the crucial points that ought to be made at the meeting;

(b) the main facts that have to be faced about the present situation;

See also Flag B 2

(c) some crunch points which might be made if the opportunity offers, on the Isle of Grain dispute and the Monopolies and Mergers Commission reports of British Rail's commuter services and the inner London letter post;

(d) areas for constructive agreement;

(e) points which might be made in opening and closing the meeting.

I hope this extra material is useful.

Yours
Peter

P.S. JENKINS

Annex A

Kay/Forsyth Thesis

1. Peter Forsyth and John Kay of the Institute for Fiscal Studies published a paper in July 1980, "The Economic Implications of North Sea Oil Revenues":-

a. North Sea oil increases income through increase in tradeable goods with which we can buy tradeable goods from abroad.

b. But to use increased income in well balanced way, consumers will want to increase spending also on non-tradeable goods of the sort we cannot directly buy abroad with our oil (houses, entertainment)

c. These must be produced at home; so we will need structural adjustment from tradeables sector to non-tradeables. That will be achieved by a higher real exchange rate, increasing competitive pressure on UK tradeables sector

d. Pain of adjustment eased by investment abroad to keep down exchange rate and prolong period of increased purchasing power abroad.

e. The Government should use North Sea tax receipts to cut PSBR, thus allowing domestic interest rates to fall, and so encouraging private investment overseas.

2. Points to make

(a) Analysis of effects of North Sea oil broadly in line with Government's.

(b) Abolition of exchange controls will encourage investment overseas.

(c) Government already using North Sea tax revenues to ease pressure on PSBR, public spending and burden of tax.

(d) MTFS shows sensible possible path for decline in PSBR over medium term as % of GDP. North Sea revenues contributing to that.

(e) Cutting PSBR further to allow lower interest rates would not necessarily encourage fall in exchange rate. There could be a loss of output, improving the current account, and raising the exchange rate. This effect was ignored by Forsyth/Kay.

(f) [See separate briefing on North Sea Oil Fund]

(g) [Forsyth/Kay say investment in UK less profitable than investment abroad; and that investment in UK manufacturing would not enable us to take maximum advantage of increase in income]

Annex B

Crucial Points

i. Government shares TUC's objective of healthy economy and concern about unemployment.

ii. Control of inflation is Government's main contribution to recovery, maintaining lasting employment

iii. Government will stick to Medium Term Financial Strategy to that end.

iv. Only industry's efforts can improve productivity and competitiveness: crucial for prosperity

v. Government willing to continue dialogue with TUC, co-operate in areas of common interest

Annex C

Facts to be faced

1. Prices

[a. RPI peaked at 21.9% (May 1980 increase over May 1979)]

But

b. now only 16.3% (August)

c. £ appreciation since May 1979 has had impact effect of c.4%

d. oil price shock had direct impact effect of c.4%

e. prospects good: CBI survey show few firms planning increases: favourable effects from wholesale prices still coming through

2. Nationalised industry prices

[a. up 26% in year to August; further increases on way]

b. 10% increase in n.i. price rises = 0.8% increase in RPI

c. increases made larger by past attempts to keep prices below economic level

d. partly due to excessive pay increases (Telecomms 23%)

e. shows necessity of pay moderation

3. Unemployment

[a. seasonally adjusted, excluding school leavers, was 1,783,500 in September]

b. Government concern

c. Government policy aimed at securing lasting employment

d. Industry must endure pay moderation

4. Welsh economy

a. unemployment problem widespread; but Wales suffers disproportionately from difficulties of coal and steel rundowns

b. 18,000 new jobs in pipeline over coming years helped by Government assistance

c. INMOS project to create 2000 jobs over time

d. Additional Government money has been allocated for factory building in steel closure areas

e. Assisted area status of travel-to-work-areas most affected upgraded

5. Money and interest rates

a. recorded rate of increase distorted by effects of removing corset - removal does not affect underlying conditions

b. PSBR concentrated in first half of year

c. bank lending may come down

d. announcement in due course on roll-over

e. MTFS remains cornerstone of policy

f. remains intention to reduce interest rates, but must depend on monetary developments and prospects. To reduce MLR regardless of monetary prospects would simply result in a speedy reversal - in no-one's interest

g. responsible pay bargaining will reduce financial pressures on companies: company described at NEDC would save £7 million from 4% off pay increase, only £1.5 million from 4% off MLR

6. Burden on private industry

a. Government aware of difficulties, especially for manufacturing

b. partly due to world recession

c. also due to years of poor productivity performance: UK made and sold ½ million fewer cars than 15 years ago, rest of Europe 4 million more

d. low profits reduce investment, hence cut competitiveness and job prospects

e. biggest single relief will be moderation in pay

f. when able to ease tax burden, will bear in mind problems of private industry

g. loss of competitiveness due more to pay increases than to exchange rate level. Only satisfactory way to improve competitiveness is reducing costs, increasing productivity.

Annex D

"Crunch" points

(i) Isle of Grain dispute

Background

- Under a TUC agreement, the GMWU have sole rights to represent laggers

- The CEGB have said the site will be closed down if lagging work does not continue

- The AUEW(C), AUEW(E) and EETPU have provided 57 "trainee" laggers to do the work at bonus rates lower than those demanded by GMWU laggers. AUEW claim that by supplying these laggers, they have protected the employment of 2,000 other employees on site

- TUC have drawn up solution requiring all laggers to be paid under common site agreement limiting bonus earnings. This requires withdrawal of the 57 "trainee" laggers and their replacement by GMWU members. AUEW(E) and EETPU unlikely to accept this.

- Department of Employment doubt if TUC right on substantive issues; but Government welcome TUC efforts to bring about solutions in similar cases. Therefore best to keep low profile.

Speaking Notes

(a) All regret such inter-union disputes

(b) Glad that TUC are making efforts to resolve

(ii) MMC Report on British Rail's Commuter Services (published in October 1980)

The Report did not focus on labour productivity as the primary cause of inefficiency. Nevertheless, it did identify a number of problems:

- between 1970-80, labour productivity increased by only 5% (as compared with 97% between 1960-70)

- since 1977 productivity has hardly increased at all

- but in 1979, 120,000 "mandays" were spent in negotiation and consultation!

- more overtime is being booked than necessary in order to maintain earnings.

- rostering of train crews leading to two shifts overlapping in the middle of the day when passenger demand is very low.

- an average of 3.6 hours (45%) per shift spent by drivers actually operating trains (result is twice as many drivers as guards)

(iii) MMC Report on Inner London Letter Post (published 31 March 1980)

- Report found complaints about deterioration of London letter service fully justified.

- Between 1968-79, productivity in Inner London declined by 20-25%. (PO argue that this is due to declining traffic and high fixed costs - report did not agree.)

- PO unable to demonstrate any significant manpower savings in Inner London following partial mechanisation.

- Seniority system puts new recruits at a disadvantage and hinders recruitment.

- UPW (Union of Post Office Workers) opposition to part-time and casual labour particularly strong in Inner London.

- Report found amount of overtime worked in Central London excessive.

- Traffic measurement and work study inadequate because of UPW opposition to attempts to improve either.

- UPW Executive believe future for their members lies in a mechanised, more productive business. But this attitude not fully reflected at branch level.

(iv) For other positive points, see Annex B to original briefing:-

- Potential for new investment will only be realised if productivity improved
- Efficiency of nationalised industries and level of pay settlements determines their price increases
- Efficient training systems will contribute to prosperity
- Greater flexibility, less rigid demarcation will secure long-run jobs
- Union structure, inter-union disputes, machinery, union democracy could all be improved.

Annex E

Areas for constructive agreement

i) Continuing dialogue in NEDC

ii) Continuing work of EDCs and SWPs: to highlight problems, help towards greater efficiency

iii) More positive use of public purchasing to help industry (as announced to NEDC in July). To contribute to industrial efficiency, help launch new, especially high technology products, not to prop up inefficient companies.

iv) Training - TUC co-operation on training invaluable. Needs to be carried further.

Annex F

Opening points

- Government shares TUC's objective of healthy growing economy
- Government's prime task to get conditions right for industry to create prosperity and jobs
- top priority to control inflation: reduces competitiveness
  undermines investment
  discourages consumption
- reflation now would aggravate inflation, delay recovery (cf Venice summit, IMF meeting)
- firm restraint of monetary growth only sure way to control inflation (Last Government introduced monetary targets)
- hence medium term financial strategy - the right sort of "national economic plan"
- recent monetary developments only reinforce need to stick to strategy
- unemployment a matter of concern
- industry's competitiveness and efficiency crucial for securing employment
- Government keen to apply strategy pragmatically where room for manoeuvre - support for NEB, assistance for BSC
- Government willing to continue dialogue inside and outside NEDC
- plenty of areas for co-operation: NEDC
  EDCs/SWPs
  Training

  public purchasing initiative

Annex G

Closing points

- common objective of competitive efficient economy providing lasting growth, employment, welfare

- Government's policies directed to that end

- inflation control is pre-condition

- "alternative strategy" would exacerbate problems in long term (reflation, import controls, shorter week on same pay, lame duck support, increased public expenditure, 4% drop in MLR, action to reduce exchange rate, use of oil revenues for direct help to industry)

- moderate pay to maintain competitiveness and jobs

- management and unions must improve industrial performance; eradicate inefficient practices, reform training

- no part of Government strategy to engineer unemployment; PM at Party Conference said "bounden duty" of Government to do what it can about it

- Government ready to continue dialogue with TUC, through NEDC and directly as today

- Government eager to co-operate in work of NEDC, EDCs and SWPS, specially in improving performance; on review of training etc.