



Rose
MF

PRIME MINISTER
Worth reading, especially for
Len Murray's comments towards
the ad

CALL BY THE SECRETARY GENERAL OF THE TRADES UNION CONGRESS ON THE
CHANCELLOR OF THE EXCHEQUER AT 11 DOWNING STREET: 5.45 P.M. ON
TUESDAY, 1 JULY 1980

MS
4H

Present:

Chancellor of the Exchequer
Secretary of State for Employment
The Rt. Hon. Lionel Murray, OBE
Mr. M.A. Hall

The idea of a meeting between the Chancellor, the Secretary of State for Employment and Mr. Murray had arisen a few weeks earlier during a meeting between the Secretary of State and Mr. Murray. There were no specific subjects on the agenda.

NEDC on 2 July

2. The Chancellor said he had put in a paper for NEDC on the effects of North Sea oil on the non-oil manufacturing sector of the economy. The Secretary of State for Energy had also written a paper on oil pricing policy; Wednesday's agenda was already crowded, and he intended to circulate this later. Mr. Murray said that he did not expect that discussion of public purchasing would take long. A debate was certainly needed, but it should take place discreetly. The best results in this area were achieved by stealth. He would himself, at Tony Christopher's request, voice the TUC's concern about the placing of contracts for the forthcoming computerisation of PAYE. The Chancellor said he also had discussed this with Tony Christopher. Orders of some £150 million were at stake, and there was nothing he would like better than that British equipment should be purchased; but the most important consideration was that the equipment should work. Mr. Murray said he was concerned also about the redundancies implied by computerisation.



Widening the debate

3. The Secretary of State for Employment said that he would like to discuss the worries the TUC had voiced publicly about lack of consultation by the Government. He thought NEDC was a valuable forum, and individual trade union leaders saw particular Ministers on an ad hoc basis. Mr. Murray said that things were "not going too badly". Against the present economic scenario it was very difficult for the TUC to engage in formal discussion with the Government; how could the Government even convince his colleagues that they were listening? He knew that his colleagues saw individual Ministers, and encouraged them to do so. But more wide ranging and semi-structured discussion was much more of a problem.

4. The Chancellor said that the effects of the sharp increase in oil prices were depressing economic performance and expectations throughout the world. Because of its relatively high level of inflation and low productivity growth the UK was starting from a worse position. But even countries which appeared to be rapidly growing - he had that day seen the Governor of the Malaysian Central Bank and the Deputy Premier of South Korea - were now feeling the pinch imposed by contraction of the world economy. He was especially worried about our relatively high unit labour costs. How could we continue to pay ourselves 10 per cent more than the rest of the world did? The Government and the trades unions had a joint interest in bringing down unemployment and interest rates; but the high level of interest rates was due to excessive Government borrowing in the market. He saw value in widening discussion based on this broad analysis, on which there could be little scope for disagreement. Mr. Murray said he nevertheless **strongly** disagreed. There was a fundamental difference between him and the Chancellor on analysis; analysis and objectives should not be confused. He saw the problems of the balance of payments, unemployment, inflation, the exchange rate, the effects of North Sea oil etc. as of equal importance. Inflation and pay should not be singled out



for special treatment. Trade union leaders were all on the defensive (he mentioned specifically Mr. Weighell in this context) and believed the Government was picking out pay and inflation out of hostility towards the trades unions. How was the Government going to dispel this deeply-rooted feeling? The Chancellor thought this was by no means a fundamental difference; our poor current balance of payments position was due to the worsening of our trade performance. Competitiveness was at least as much a matter of unit labour costs as of the exchange rate. There was an undeniable relationship between pay, output and jobs. Mr. Murray said that whatever the facts of the matter pay and prices would continue to be closely linked in the minds of trade unionists. The Government however thought that it could break their nerve through the rising tide of unemployment. The Chancellor said that in the public sector, many settlements were below the rate of inflation. The Government was attempting to lead the level of pay down. Mr. Murray said that this Government was under the same illusion as had been Mr. Callaghan's. The pay/price link was firmly embedded in the trade union mind, not least in the public sector. The Government must stop giving the impression that it was gunning for the trade unions. It would however be a great help when the RPI itself began to fall. The Chancellor said this would soon happen; but even after the sharp step fall which would reflect the 1979 VAT increase dropping out of the RPI, the index would still be higher than an economically acceptable level of pay settlements. He agreed with Mr. Murray that it was difficult to discuss these things with the trade unions. But they were legitimate topics of mutual interest which needed to be opened up.

5. Mr. Murray repeated that "the irrationalities force their way through". The Government's cuts in the planned expenditure of the MSC, for example, had been highly inflammatory to the trades unions. The Secretary of State for Employment reminded Mr. Murray that the MSC was in fact planning to spend £50 million more this year than last. Nearly all the cuts were in fact of



projected increases in spending. Against a rising tide of unemployment, the Government's objective was to help the unemployed without excessive public expenditure. The Chancellor said the Government wanted to reduce the overall level of public expenditure without damaging "good" public expenditure programmes. Large sums, could, for instance, be saved on housing subsidies, on both the tax relief and public expenditure sides; but the effect of doing this would be to push up the RPI, which brought the argument round again to Mr. Murray's link between pay and prices. How could the obsession with the RPI be broken? The Secretary of State for Employment said that the specific cause for worry at the moment was the combination of high interest rates and a high exchange rate. Here surely there were no differences between the Government and the TUC? Mr. Murray commented that here the Government had more of a problem than he did. The Chancellor said it would probably be possible to bring interest rates down in due course; and this may affect the exchange rate, though it was unlikely to have a dramatic effect.

6. All in all, the Chancellor said it looked as though the NEDC was the best place to carry on the broad economic dialogue. There was no obvious semi-formal alternative, and to try to move too fast too soon could well be counter-productive. This would certainly not be the right time to canvass the idea of an "economic forum". Mr. Prior said he was attracted by the German system of concerted action. Mr. Murray said there was now much disillusion with concerted action in Germany, and commended to Ministers a book by Mr. D. Winchester.

7. The Secretary of State said that there should be more public discussion of the general economic situation and the social problems of high unemployment. Mr. Murray commented that crises produce the best results; but that this was not a crisis, simply a steadily deteriorating situation.

8. Reverting to the following day's discussion in NEDC, the Chancellor said he would like to identify subjects for



discussion in August following on from his paper on the economic effects of North Sea oil. Mr. Murray said there was a good deal of agreement in NEDC, particularly on supply side matters. Specific issues - e.g. public purchasing, response to technological change, had to be used as building blocks to improve the overall climate for broadening the discussion. The Chancellor wondered if Mr. Murray saw further scope in the NEDC initiative to improve communication at plant level. Mr. Murray commented that this was a long process; and the real problem was action not communications - a word he preferred to avoid. The Secretary of State said there was an undeniable ignorance of basic economic facts on the shopfloor. Mr. Murray said that there was simply a different perception of those facts. The message must be put across in terms they could understand. "Curious inertias" persisted.

9. Reverting again to possible modalities of expanding contact between Government and trade unions the Chancellor said that one merit of the NEDC was that it took place to a regular schedule. If on the other hand the TUC were to come and see him to discuss e.g. public expenditure, this was likely to be a sterile setpiece discussion. Mr. Murray agreed. The Secretary of State said that the Government had now been in office for more than a year, and - although he reluctantly agreed - both they and the TUC were still saying the time was not ripe for more formal contact. Mr. Murray said that there may well be small measures the Government might take, which were not offensive to their philosophy, but could "produce bits of mood" to influence the climate. "Little fish were sweet". It was necessary to look all the time for middle ground. The Secretary of State said the RPI would fall sharply in August. It was important to use this to influence the climate in bringing wage settlements down. Mr. Murray said that all roads led to unemployment, which would dominate this year's Congress. There were "ridiculous" pressures that the TUC should organise the unemployed. He was worried that unemployment would reach such a serious level as to trigger off



flashpoints which would give extremists in the trade union movement scope for manoeuvre. The Chancellor commented that he had observed this happening in other countries; the Government must try to contain the social pressures caused by unemployment. The problem was that national living standards were falling, and were borne disproportionately by the unemployed. One of Mr. Callaghan's mistakes had been to represent the fall of wage levels below the cost of living as a temporary sacrifice which would be later reversed. The real message was that it was indeed a sacrifice, but that there could be no promise that real wages would in fact again resume their increase. It was in everyone's interests that this unpalatable message be widely understood. Mr. Murray said he fundamentally disagreed. It was not necessary to cut GDP as much as it had fallen in this recession, nor was it necessary for unemployment to rise by as much or for inflation to be squeezed out with such vigour.

It was not necessary for trade unions to be picked out; antagonism to the trade union movement was the common thread running through the whole of the Government's approach. This was not just a "persecution complex"; it was undeniable. The Chancellor insisted that the argument the Government was putting forward on pay was not simply a stick with which to beat the trade unions. The Secretary of State acknowledged that there was a natural and traditional tendency for Conservative Governments to blame trade unions for the country's problems and for trade unions to blame Conservative Governments. Mr. Murray said that whether or not these attitudes were real, what mattered was that they were seen to exist.

10. The Chancellor said he suspected that he and Mr. Murray were closer intellectually on the causes of inflation and the need to control it than it seemed at first sight; he wished there was more time to press the argument further. Summing up his views, Mr. Murray said that there was probably not a great deal of room at the moment for significant widening of the dialogue between Government and trade unions, but their common



aim should always be to widen the middle ground. "Little fish were a help"; the TUC and the Government should try to take forward their thinking on small measures which might be taken to improve the atmosphere. He felt that discussion in NEDC was moving forward in helpful ways. He commended the work of the Secretariat, which insisted on picking up loose ends and forcing them back to the Council for further discussion. He thought it might be a good idea if someone, e.g. John Elliot, could be persuaded to write a book or monograph about the NEDC, presenting its work in an interesting way to the outside world. Close attention should be given to the timing of such an initiative. He referred to a book by Hugh Stephenson as a possible model.

11. The Chancellor thought this was a promising idea. The work of NEDC was very little noticed outside the immediate circle of interested parties. But this was not without advantage in conducting useful business. The Secretary of State for Employment said that important meetings of the Cabinet were scheduled on economic matters. He thought he and the Chancellor should now reflect on this discussion with Mr. Murray and see how the situation looked "in a little while".

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MAH

(M.A. HALL)

3 July 1980

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