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MR LANKESTER

10 DOWNING STREET

From the Press Secretary

PAYMASTER GENERAL

Presentation of the Government's Economic Strategy

During your absence we have been looking at the problems facing us in presenting the Government's economic strategy this autumn, and, with the arrival of Mr. Vereker, considering ways of improving the machinery generally. MIO(E) has agreed a paper setting out the problems of presenting the strategy this autumn, and making recommendations as to how we should proceed. We wish to develop a closely co-ordinated effort on the part of all Ministers to put across both the necessary general explanations of the strategy, and our week-by-week response to events in the economy, particularly as they relate to this year's pay round. Mr. Vereker would be responsible for co-ordinating this effort.

Accordingly, I submit for your consideration these papers:

- (i) The paper agreed by MIO(E) on the presentation of the economic strategy in the autumn. This paper has also been seen and agreed by the Treasury Under Secretaries responsible.
- Annex 1 (ii) A fortnightly diary for the period 13-26 September, illustrating the way in which we propose to correlate the principal economic events with an appropriate Ministerial response. I do not believe this will duplicate existing work or cause further work outside No. 10.
- Annex 2 (iii) A draft letter for you to send to all your Ministerial colleagues, explaining the need for a sustained campaign on the presentation of the strategy, with special emphasis on pay; and asking for your colleagues' help in contributing to the effort.

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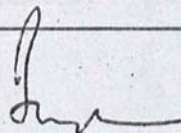
Annex 3 (iv) A draft letter which, if you agree, I would propose that Mr. Whitmore should send to Private Secretaries to Cabinet Ministers, stressing the Prime Minister's personal interest, and explaining Mr. Vereker's role.

Annex 4 (v) An example for your consideration of one of the new PMG notes in the economic policy presentation series. This one relates particularly to prices; we would propose also to issue at the beginning of this effort notes reaffirming the overall strategy, examining the relationship between wage claims and unemployment, and on the damaging nature of inflation.

Mr. Vereker and I would, of course, be happy to discuss this with you at your convenience. **

I am sending copies of this minute to John Wiggins (H.M. Treasury), Alistair Pirie (Chief Secretary's Office) and Stephen Locke (Financial Secretary's Office).

** I shall be away over the next seven days but will be in during the first part of the week beginning 29 September before I go on a short holiday. Meanwhile the work is going ahead as a matter of urgency.



B. INGHAM

16 September 1980

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PRESENTATION OF THE GOVERNMENT'S ECONOMIC STRATEGY IN THE AUTUMN

This paper looks at the message that has to be put across this autumn, against the background of how the economic strategy is progressing; and makes recommendations as to how we might proceed.

The Message, in the light of the Economy

2. For the first time, the economic strategy is under concerted attack in the media. As the CBI and leading industrialists publicly join the effort to persuade the Government to change its policies, albeit without presenting a coherent alternative, there is a danger that the Government will be thrown on the defensive. There are indeed substantial presentational problems:

- (i) Control of the money supply has been built up as the Government's principal weapon, but neither the last two (July and August) sets of figures nor the figures which are likely to be issued later in the autumn will provide evidence that money supply is coming down to the target range.
- (ii) Inflation, as perceived by the public in the shape of the RPI, will not fall sufficiently to have an effect on pay expectations for the foreseeable future.
- (iii) The recession and the economic strategy are beginning to bite more sharply on the private sector, due to high interest rates and the strong pound, than on the public sector, where wages and prices have appeared to be less restrained. There is a particular problem of the announcements due during the autumn of substantial price increases for coal, gas, posts, telephones and railways. The announcement of cash limits in the second half of November will provide a defence in the case of the Civil Service and local authorities, but far less in the case of the nationalised industries.

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(iv) There will be some other sharp increases which will make it difficult to sell wage moderation, notably rates and rents.

(v) The unemployment figures will continue to worsen.

3. Against this background, there are a number of themes that need to be put across. They are not new:-

(i) Although many of the remedies do lie in our own hands, it is quite legitimate to associate many of our current and prospective problems with the oil price rises of the 1970s and with the general world recession.

(ii) Over and above this, a considerable amount of restructuring is taking place in British industry; there is bound to be a price for that, but we will emerge more efficient and more competitive.

(iii) Sticking to the strategy offers the best hope of steady growth, and therefore of more secure jobs.

(iv) If wage settlements are more than we can afford [we can no longer say "more than the planned growth of money supply" since it is growing above the 7-11% target] even more jobs will be lost. That can happen in a number of ways:

- Companies go out of business because their higher costs make them uncompetitive;

- Private sector investment falls because profits are lower;

- In monopoly industries, higher costs are passed on to the consumer, forcing other industries to become uncompetitive, and lowering the overall level of demand.

(v) Long-drawn-out strikes mean substantial costs to individual strikers, as well as to the employer (BSC example).

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- (vi) Of course some public sector workers are in a strong position in wage bargaining; but they must face the moral issue: how do they justify their claims, and why should the weaker groups have to pay for them?
- (vii) The Government is taking a responsible attitude to both pay and public spending in that part of the public sector which it directly controls. The cash limits will be significantly lower than last year's.
- (viii) Prices are only part of the picture: producing goods that the consumer demands and marketing them effectively is just as important.
- (ix) There is quite a lot of good news about, and it deserves more notice:
- A number of reasonably low pay settlements.
 - Exports are holding up well.
 - The prospects for inflation are much improved; wholesale input prices are particularly encouraging.
 - Polls show union members, though not leaders, are realistic about wages having to rise by less than the cost of living.
- (x) It is wrong to portray the Government as unnecessarily hard faced when confronted with the social consequences of the economic strategy. Social policies are playing an important part in cushioning the sharp corners of change.
- (xi) Inflation is evil. Getting it out of the system permanently is a centrepiece of the strategy.
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4. There will therefore need to be a careful matching of economic events with opportunities to present the Government's case, and an equally careful preparation of suitable material. The material has to be available quickly, as far as possible before each event, so that Ministers can speak without delay. And there has to be a regular supply of new material, not necessarily related to specific events, on the overall strategy.

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/ Recommendations

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Recommendations

5. We recommend:-

- (i) That our overall strategy be to overcome the major presentational difficulties outlined in paragraph 2 above on the basis of the themes outlined in paragraph 3 above; while at the same time being alert for new themes to deploy.
- (ii) That a special diary be prepared for events relating to the presentation of the economic strategy. It should cover the major statistical announcements; suitable speeches by Ministers; pay offer and settlement dates; and publication dates of some of the Economic Reviews, notably the Bank of England and the NIESR. It would be prepared in No. 10 on the basis of contributions by Departments and by extracting information from the diary already prepared for MIO, and like that one it would cover the forthcoming fortnight. It would be rolled forward weekly and would be brought up to date at the regular Monday meeting of MIO(E).
- (iii) That on the basis of this diary a tactical response to day-to-day events be co-ordinated in No. 10. The regular series of PMG notes, designed as weekend speaking notes for Ministers, would be reinforced by a special and separately identifiable series on economic presentation. Such a series would aim:
 - (a) To respond to major short-term events;
 - (b) to relate to the progress of pay settlements, both public and private sector;
 - (c) to provide continuing material to ensure that the medium-term financial strategy is widely understood; this would reflect the overall progress of the economy and any new thinking on the part of the Prime Minister or the Chancellor; and
 - (d) to pick up and counter in a positive way critical arguments as they arise.

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/ These notes

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These notes would, of course, be issued by the PMG's Office, but the co-ordination of their preparation would be the responsibility of No. 10, on the basis of material provided by Departments. They would have to be circulated in time for Ministers' boxes on Thursday evenings.

- (iv) Close attention be paid to monitoring the use to which the material is put. No. 10 reporting to the PMG would be responsible for checking that opportunities were being taken, and that suitable measures were adopted to ensure media (including radio and TV) coverage. Their role in this would be explained to Private Secretaries by the Prime Minister's Private Secretary.

Prime Minister's Office
17 September 1980

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	Principal Economic Statistics & Reviews	Pay Offers & Settlements	Appropriate Ministerial Speeches	Parliament
Saturday 13 and Sunday 14 November		Fire Service (36,500): Employers meet	FCO: Sir I Gilmour, M/S, Harrow E. DOI: Sir K. Joseph, S/S, NW Area CP Conference, Southport	Recess
Monday 15 September	Balance of Payments (August) Retail Sales (August) Industrial Production (July)	OS Industrials (154,000): Meeting of JNC LA Chief Officers (1900): meeting of JNC	DOI: Sir K. Joseph, S/S, visits SW England FCO: Mr Ridley, M/S, Tewkesbury Rotary Club WO: Mr Edwards, S/S, opens Nestle's depot, Chepstow DM: Mr Prior, S/S, opens British Enterprise Exhibition, Piccadilly	Recess
Tuesday 16 September			Try: Sir G Howe, Kingston Cons. Ass	Recess
Wednesday 17 September	Cyclical Indicators (August) Average Earnings (July) Basic Wage Rates (August) Money Stock (2nd Quarter) CGBR (2n Quarter) UK Banking Sector (2nd Quarter)		DM: Mr Prior, S/S, ESA Conference, Reading HO: Mr Whitelaw, H/S, James Stuart Lecture, Edinburgh Try: Mr Biffen, C/S, Engineering Employers Federation DOE: Mr Fox, PUSS, 77 Club, York	
Thursday 18 September	Money Stock (mid-August)	Shell Oil tanker drivers (5000): Negotiating meeting	SO: Mr. Fletcher, PUSS, Scottish Council Conference for small firms	Recess
Friday 19 September	DOI British Business Magazine: wholesale prices	Probation Service (5000): Employers meet Electricity Council meet EPEA (1700)	DM: Mr Prior, S/S, St. Albans, Welwyn and Hatfield Try: Mr Biffen, C/S, Thirsk & Malton CPC DHSS: Mr Jenkin, S/S, Durham Social Services Conference FCO: Mr Hurd, M/S, SW Cons. Ass. DOI: Lord Trenchard, M/S, Cons. speaking tour in Wessex	Recess

Saturday 20 and Sunday 21 September							Recess
Monday 22 September	GDP (Second Quarter)					DM: Mr Prior, S/S, Ilford Cons. Ass Try: Mr Biffen, C/S, Industry & Parliament Trust Seminar DOI: Mr Marshall, PUSS, Business Competition, Newcastle	Recess
Tuesday 23 September	Unemployment (Sept) Unfilled Vacancies (Sept)					DOE: Mr Heseltine, S/S, Leeds Business Venture DOI: Mr Joseph, S/S, Merseyside Chamber of Commerce MOD: Lord Strathcona, M/S, Stoneleigh & Iwell YCS DES: Baroness Young, M/S, Guildford Grammar School	Recess
Wednesday 24 Sept.						CSD: Lord Soames, L/P, Lloyds DM: Mr Prior, S/S, Industrial Society Conference DOI: Sir K Joseph, S/S, opens BL test track, Preston DOT: Mrs Oppenheim, M/S, Worshipful Company of Bakers DOE: Mr Fox, PUSS, Public Meeting, Bingley MAFF: Mr Buchanan Smith, M/S, Cons. Ass. Fleetwood	Recess
Thursday 25 Sept.	Employment in Production (July) Overtime & shorttime in Manufacturing (July) Industrial Disputes (August)					CSD: Lord Soames, L/P, Young Conservatives Conference, London HO: Mr Brittan, M/S, Whitby Ladies Cons. Ass. DOE: Mr Fox, PUSS, Whitby Ladies Cons. Ass.	Recess

Friday 26 September

DES: Mr Carlisle, S/S,
N. Hereford Cons Ass
DOI: Sir K Joseph, S/S, opens
SW Farmer Ltd, Leeds
Try: Mr. Biffen, C/S, Oswestry
Cons. Women
DOT: Mrs Oppenheim, M/S, Hythe YCS
DOE: Mr Fox, PUSS, West Kirby Lunch
Club
DM: Mr Prior, S/S, Cambridge College
of Arts & Technology
DM: Mr Lester, PUSS, Cambridge Small
Business Bureau
DES: Baroness Young, M/S, East Surrey
CPC
HO: Mr Whitelaw, S/S, Northern Area
Tour

Recess

DRAFT LETTER FROM THE PAYMASTER GENERAL TO ALL MINISTERSTHE PAY ROUND

It is vital that the public as a whole, and particularly unionised labour, understand the consequences of unrealistic pay claims this autumn. We have deliberately set our faces against the setting of a particular norm or range. But that makes it all the more important to explain that the economic environment the Government has created will lead to steady growth and more jobs if wage settlements are moderate now, but to more inflation and more unemployment if they are not.

So we need a sustained campaign by all Ministers this autumn. To get this off the ground I shall be issuing a new series of speaking notes for Ministers on the presentation of our economic strategy, with special emphasis on pay. The Prime Minister's Office, in close consultation with the Treasury, will be co-ordinating the preparation of the necessary material, and have been asked to monitor closely the way it is used and how it is received. This effort has the strong personal backing of the Prime Minister and of the Chancellor, and I am sure you will all take every opportunity to put the message across, and to ensure it reaches individual groups of public sector employees before they get into negotiations.

As far as the pay round is concerned, our strategy should be to use different weapons as the autumn unfolds. We shall need throughout to reiterate the Government's determination not to change course by printing money to finance pay claims; but I can already see three distinct stages in the campaign:

- (i) In the early autumn, that is, for the next two months or so, we need to base our explanations on the fear of further unemployment; the beginnings of evidence of private sector moderation, which has - significantly - been shown in industries especially prone to competition; the risk of losing pay through long drawn out strikes; and the evidence that inflation is easing.

/ (ii)

- (ii) In the late autumn, as the public sector monopolies begin to loom larger we should deploy the moral argument (why should the weaker pay?); explain that relativities and traditional links between bargaining groups are no longer valid and that any individual high settlements are not to be regarded as a precedent for others to follow; and point to cash limits as evidence of the Government's determination in the sectors for which it is responsible.

- (iii) By the New Year, we should hopefully be in a position to build up the momentum of moderation, by quoting and re quoting the figures for all responsible settlements reached, showing that the RPI is dropping significantly, and perhaps even finding some evidence that output and the labour market are beginning to recover.

I should of course welcome any ideas that colleagues may have for this campaign, and their reactions to the usefulness or otherwise of the material we put out. I cannot overemphasise the importance of every Minister's personal responsibility for contributing to this effort.

A.M.

DRAFT LETTER FOR MR. WHITMORE TO SEND TO THE PRIVATE SECRETARY TO THE HOME SECRETARY

Presentation of the Government's Economic Strategy

You will have seen that the Paymaster General has written to his Cabinet colleagues asking them to carry out a sustained campaign with a view to moderating pay claims in the current pay round; and saying that preparation of the material for this, in the form of a new series of speaking notes for Ministers, will be co-ordinated here in No. 10.

As some of you will already know, responsibility for this work rests in No. 10 with John Vereker, an Assistant Secretary who has recently joined us, working to Bernard Ingham. The Prime Minister wishes to see the level of expectation of settlements in the pay round brought down by a particular effort on the part of all Ministers to explain the nature of the economic strategy. John Vereker has been asked to ensure that the speaking notes on economic issues are both usable and used, and to this end he will be in close touch with you to monitor the operation and to see it is getting the necessary media attention.

I should be grateful if you and other recipients would show this letter to your colleagues working for other Ministers in your Department. I am sending copies to Private Secretaries to all members of the Cabinet, and to David Wright.

C. A. WHITMORE

GOOD NEWS ON PRICES

Objective

The objective of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing this weekend, which will reduce public expectations as to the likely pay offers in the current (1980/81) pay round. It is addressed to all employees, and where Ministers have some direct or indirect responsibility for public sector employees they should try to find occasions to speak to them.

Presentation

Prices are going to rise much more slowly during this pay round than during the last one. That isn't just a forecast by the Treasury computer: there is convincing evidence for all to see.

The prices you pay in the shops rose by only 11-12% over the year ending in July, and there's never been a better time for picking up bargains.

Better still, the prices paid by industry for the goods they used rose by less than a half of one per cent in August, the smallest monthly increase in one and a half years. That means that before long the retail prices will come down too.

Taking prices as a whole, during the last three months inflation has been running at an annual rate of about 8%; and even if we ignore the effect of cheaper seasonal food at this time of year it's still only 8½%.

So, looking forward, the prices picture is encouraging. There's every reason to suppose that the rate of inflation is going to go on coming down; and the Government is going to make sure it doesn't go back up again, by not printing easy money.

/ When it's time

When it's time to think about your next pay rise, don't look back to the way prices were moving a year ago; look forward. Prices are going to rise much more slowly now, and not just for a few months. The measures the Government has taken lay the foundation for years of stable growth - that means more prosperity and less inflation.

None of us should hope that our pay rises are going to keep pace even with the price increases we can expect from now onwards. We have to have a temporary fall in our living standards if we're to get the economy straight. But because the price increases won't be so big, our pay won't be lagging so far behind.

A lot of people have shown they understand this already. The Lucas workers accepted a pay rise of 6.8%; and Vauxhall workers have voted by a very large majority to accept 8%. Companies can't afford to pay more than this when inflation is coming down.

Government can't afford it either. Our determination to set a realistic example was shown by the decision to make drastic cuts in the increases recommended for Ministers, MPs, Senior Civil Servants and Servicemen and Leaders of nationalised industries - and that was all part of the last pay round.

This time round, as the Chancellor said in Birmingham last week, there's going to be significantly less cash available for public servants than there was last year. So everybody's in the same boat.