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PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

19th September 1980

TO ALL MINISTERS

Prime Minister
You will wish to be aware of these papers.
TL 26/9

MS

Dear Colleague,

THE 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:

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(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) 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argument (why should the weaker pay?); explain that relativities and traditional links between bargaining groups are no longer valid and that any individual high settlements are not to be regarded as a precedent for others to follow: and point to cash limits as evidence of the Government's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 requoting 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 over-emphasise the importance of every Minister's personal responsibility for contributing to this effort.

Yours,

Angus Maude

Angus Maude

GOOD NEWS ON PRICES

Objective

The object of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing this week-end, designed to 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 under 13% over the year ending in July, and there's never been a better time for picking up bargains.

Better still, there are indications that the price of manufactured goods will not be rising very much over the next few months. According to CBI figures, fewer firms are expecting to raise prices than at any time in the last ten years.

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 money.

Earnings as a whole have risen considerably more than prices in the past year. This is a statistical fact, whatever our own personal impressions may have been. But no one should now expect pay rises to go on keeping pace even with the price increases likely in the near future. We have to have a temporary fall in our real living standards if we're to get the economy straight, stop the rise in unemployment and create new jobs. But even so, because the price increases won't be so big, our pay won't be lagging far behind.

/A

A lot of people have shown they understand this already. The Lucas workers accepted a reported pay rise of 10%; and Vauxhall workers at Luton and Dunstable overturned their union's recommendation and have voted by a very large majority to accept 8%. Companies can't afford to pay more than this during a severe industrial recession.

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, MP's, 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 Manchester on 10th September, there's going to be significantly less cash available for increase in the cost of public servants' pay than there was last year. So everybody's in the same boat.

Paymaster General's Office,
Privy Council Office,
68, Whitehall,
London SW1A 2AT

19 September 1980

THE STRATEGY REAFFIRMED

Objective

The object of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing over the next few weeks, which will restate the case for the economic strategy the Government is pursuing and leave no doubt that it will be maintained. It is addressed to opinion formers, but is also suitable for wider audiences.

Presentation

The Government is giving top priority in its economic strategy to getting inflation down once and for all. We all know the harmful effects of inflation: it eats into our savings and our earnings, it makes planning our finances impossible, and it undermines sustained growth and employment.

Governments of both parties have been trying to contain inflation for at least twenty years. Sometimes, especially when they have used controls of one kind or another - such as incomes policies - they have had some short run success; but inflation has always crept - or leapt - back up again.

To get rid of excessive inflation permanently requires a new approach. Instead of attacking the effect - higher prices and wages - we have to attack the cause: that is, the rate at which the amount of money in the system has been growing.

There's nothing sinister about a responsible monetary policy. It simply means not taking the easy way out by printing money to pay for higher wages that have not been earned by higher output.

Inflation has already peaked. Success in our policy of reducing the growth in the supply of money will ensure a greater and more permanent reduction.

/ To achieve our monetary

To achieve our monetary objectives without excessive interest rates we have to rein back public spending. The Government can't find all the resources it needs by raising taxes, and if it borrows too much, interest rates will not come down. So we're being very careful how we spend your money.

Our economic strategy is therefore very simple: we're not going to throw away the chance of getting inflation under control by printing money and increasing public spending.

Have you noticed that, although there's a lot of talk in the press about the economic strategy, no one has suggested a real alternative?

Some people say we should abandon our efforts to contain the money supply, so as to create more jobs. Well, a responsible monetary policy may mean some extra unemployment in the transitional period, but the more quickly people adjust their expectations, the shorter this period will be. Easy money is not a real alternative: inflation would go back up and the new jobs would be a long time coming.

Our policy offers the only chance of getting into a lasting pattern of steady growth with stable prices - which would mean a healthier economy, more jobs, and a new prosperity.

PAYMASTER GENERAL'S OFFICE
PRIVY COUNCIL OFFICE
68 WHITEHALL
LONDON SW1A 2AT

19 SEPTEMBER 1980

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PMG NOTE: ECONOMIC POLICY PRESENTATION No. 1

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