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Chancellor of the
Exchequer
cc Mr Lankester
Mr Wolfson
Mr Hoskyns
Mr Vereker

PRIME MINISTER

CABINET, 17 JUNE: ECONOMIC STRATEGY

Changing Patterns of Economic Behaviour, notably on Pay

The Chancellor's paper for tomorrow's Cabinet discussion on the economic strategy concludes that Cabinet ought to focus on how to change the patterns of economic behaviour (paragraph 43), particularly in the sense of explaining the importance of the fight against inflation, and achieving a continuation of moderate pay behaviour. The Chancellor's ideas are developed further in the second of the two papers circulated under cover of C(81)30, entitled "Pay in the Coming Year".

2. Since his approach to pay is seen largely in terms of public presentation of the economic strategy, you and the Chancellor may find it helpful to have our comments on the need for and the likely effectiveness of this approach.

3. The first question the Chancellor asks in paragraph 43 of his paper is how to secure wider understanding of the scale of our problems. We question whether the Government actually wants to achieve that. As the Chancellor's paper makes clear, many of our problems are actually looking worse than when the Government took office: thus the tax burden has been increased; public expenditure as a share of GDP has been increased; private sector output has declined sharply; inflation may temporarily at least be bottoming out; and the prospects for unemployment are for a continuing rise. It is difficult to explain the severity of the country's economic problems at the same time as defending the Government's economic record.

4. The Chancellor then suggests in (b) and (c) of paragraph 43 that we should consider what more we can do to convince people of the need to conquer inflation, and to secure a sustained change in the attitudes of pay bargainers, especially in the coming autumn and winter. We know the main determinants of public attitudes in these areas :

- i The public perceives economic realities as a result of events, to a far greater extent than it perceives them as a result of explanations by Government spokesmen. Thus, over the past two years public perception of economic/pay reality has been principally determined by the Government's treatment of the steel strike, the threatened coal strike, the civil servants' industrial action, and above all by the announcements of the pay factors in the public sector cash limits.
- ii Attitudes taken up by intermediaries, who are not seen as Government spokesmen, are also an important ingredient. It is therefore very important to ensure that the CBI say the right things at the right time. Attitudes developed in NEDC and similar fora can also help.

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- iii Direct presentation by Ministers is of significance only when undertaken by the most senior ones, and possibly only by yourself and the Chancellor. While all Ministers should play their part in explaining the Government's policies, and while a useful direct audience will be reached in this way, we must not delude ourselves that the media are interested in routine reaffirmations of policy by junior Ministers. The main speeches by the Prime Minister and the Chancellor are the key instruments.

5. It follows that the weight which is attached to public presentation in paragraphs 17 to 20, and 24, of the Chancellor's paper on pay in the coming year is too great. The Chancellor proposes a plan "for getting this message disseminated on the broadcasting front", including "a sequence of Ministerial speeches, liaison with the CBI and other forms of publicity". This implies that presentation will be more important in the next pay round than the actual policy decisions, eg on cash limits and the treatment of any threatened miners' strike. This is not so, though the effective presentation of policy decisions is important. We must concentrate both on getting the policy right; and on really getting the message over. We have, of course, already started.

Conclusion

6. The current pay round has indeed not gone too badly, but that was probably due as much to the falling RPI and rising unemployment as to the efforts we made to explain the role of pay in economic recovery, however great those were. In the next pay round, the economic environment will be rather different, and Ministers would be buoying themselves up with false hopes if they assumed that a similar presentational effort would on its own achieve a similar success.


B. INGHAM

16 June, 1981.