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PRIME MINISTER

E, 2 JULY: THE NEXT PAY ROUND

The Chancellor's paper, E(81)66, does not seek decisions; but it poses a question - can we halve the increase in earnings, to an average of less than 5%? - and suggests a programme of action, of which the principle elements are the conditioning of public opinion and working out how to handle public sector pay negotiations.

Many of the factors which will determine the outcome of the next pay round are outside the immediate control of Government. These include the movement of prices, the demand for labour, and company profitability. The factors over which the Government does have some control can conveniently be put into three categories:

(i) The relative bargaining power of employers vis-a-vis employees.

The CPRS have already outlined the aspects of this they propose to examine. The answer to the Chancellor's question is yes: since we have to get pay rises down in order to restore competitiveness and increase employment, we have asked the CPRS what is to stop us doing it. (Not all of the things the CPRS will look at, e.g. trade union reform, need to wait until the report before action can be taken).

(ii) The treatment of specific issues.

Attitudes are determined by what the Government does, not by what it says. The right decisions on, say, the Civil Service dispute are worth a dozen Ministerial speeches.

/ Other

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Other issues on which decisions were and will be crucial to the next pay round include: whether to allow local authority white collar workers access to arbitration; whether to continue index linking for the police and, later, the firemen; what pay assumption to build into the RSG; what pay factor to build into cash limits; and how to influence the balance between wages and investment in the nationalised industries.

(iii) Publicity.

Bernard Ingham has already pointed out, in his note of 16 June, that the Chancellor's paper attaches too much weight to the likely effectiveness of public presentation in determining attitudes. And it overlooks the extent to which recent speeches and statements by you, the Chancellor and Terence Beckett have already brought the concept of low single figures into circulation. This has already been interpreted, with some justification, as an incomes policy by exhortation; further publicity must concentrate on explanation, with the arguments put in terms of individual self-interest, rather than exhortation to sacrifice self interest for the sake of some vague greater good (the Chancellor's concept of the "national cash limit" is particularly unhelpful in this context, as was Terence Beckett's saying what pay rises ought to be, rather than what his members could afford.)

*Explanations*

/ No doubt

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No doubt Ministers in E will want to have a general discussion of the prospects for the next pay round. But rather than simply endorse the Chancellor's paper, it would be useful to conclude that:

- (i) the prospects should be examined again very early in the autumn in the light of the CPRS report;
- (ii) more weight should be carried by policy decisions in the public sector, and less by publicity; and
- (iii) the importance of getting pay settlements below 5% is so high that the whole economic strategy would be at risk if the obstacles identified by the CPRS, and forthcoming public sector policy decisions, are not dealt with in the right way.

J.

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