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10 DOWNING STREET

From the Private Secretary

22 September 1981

Lois of BF's!  
no papers - b/f are now dead cc 23/4/87

Dear Terry,

As you know, the Prime Minister held a meeting yesterday afternoon to discuss the CPRS report on pay, which had been circulated under cover of a letter from Robin Ibbs dated 14 September. The following were present: Chief Secretary, Chancellor of the Duchy, Secretaries of State for Industry, Social Services, Environment, Employment and Energy, Sir Robert Armstrong and Robin Ibbs.

Introducing the CPRS report, Mr. Ibbs said that the issues raised in it were very difficult. The CPRS had tried to take a detached look at the present framework of policies which were aimed at bringing about a fall in real wages, and it indicated various ways in which the CPRS believed they could be made to work better. The CPRS, however, took the view that present policies, even if they were working better, might not be sufficient. They had therefore examined various alternative policies. They concluded that three of the alternatives examined were not worth pursuing further, but that the fourth - the idea of a wage-inflation tax (WIT) - might be worth exploring in greater detail. The reason d'etre for the WIT proposal was that, even with improved existing policies, market forces might well fail to produce a satisfactory result on the pay front: the purpose of the WIT was to make market forces operate better. His personal view was that the WIT was open to a number of serious objections; nonetheless, he thought that Ministers might still want further work done on it.

The ensuing discussion proceeded under the following headings:

Wage-Inflation Tax Proposal

It was generally felt that the arguments against the WIT proposal were overwhelming. Accordingly, the Prime Minister said it was agreed that no further work should be done on it.

Public Understanding

There was general agreement with the CPRS view that a crucial task, if there was to be room for expansion, was to change present deep-seated attitudes towards pay. There had to be a better understanding of the link between pay, profits and productivity; and people had to be made to recognise that they had no automatic entitlement to annual pay rises. Furthermore, youngsters leaving school had to understand better that the state did not owe them a living.

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It was suggested that the Government might mount a new campaign, aimed at putting over the message of greater economic realism. Against this, it was argued that general campaigns of this kind were of little value. Attempts by Ministers to preach the virtues of economic realism to private industry were likely to fall on deaf ears. It would be better to leave it to the CBI to make the running with their members. Furthermore, there was a limit to what could be achieved by any general message from the centre. People were much more likely to understand the link between pay, profits and productivity if the point was made at company level. Unfortunately, far too many firms were still failing to communicate properly with their employees, despite the efforts by the CBI in this direction a year or two ago. There was much evidence to show that, if employees at the shop floor level were made properly aware of their companies' performance and problems, they would take account of it in their attitudes to pay bargaining. The fact that so little progress had been made in this regard was reflected at the recent TUC Conference, where not one speaker had mentioned the importance of profits and profitability as a means to better living standards. It would be better if the Government and the CBI could persuade employers to improve communication with their employees voluntarily; the Government might issue an appropriate code of practice. But it might be necessary to consider introducing legislation on this subject to make improved communication mandatory. Such legislation might even go beyond communication to ensuring a greater measure of employee involvement in management decisions. If the Government did nothing in this area, it would be leaving the field to the Labour Party, which wanted to resurrect Planning Agreements, and to the SDP/Liberal alliance. On the other hand, there would still be a continuing role for Ministerial speeches; and while a general Government campaign would be unwise, it would be worth exploring the possibility of less conventional ways of putting over the economic realism message. For example, Mr. John Cleese had done some very effective work for individual private sector companies; and it might be worth considering asking him to put together something which could be used on television in free non-Party time.

In further discussion, it was suggested that the first priority for Government was to communicate better with its own employees. In some ways, the task of communication was more difficult in the public sector than in the private sector because objectives were less well defined. In the public services, more had to be done to get people to understand the importance of value for money. Only in this way would they accept the need for staff economies. The Department of the Environment had made special efforts with this approach, and it had paid off in terms of improved efficiency and acceptance of manpower cuts. Other Departments could well emulate DOE's methods, though their differing circumstances meant that improved communication was not necessarily a sufficient means of achieving better efficiency. Nor was the system of cash limits in itself sufficient to bring about a change in attitudes. In the nationalised industries, there was room for improved attitudes amongst both management and employees: in some industries, for example the National Bus Company and the National Transport Docks Board, there had been a noticeable stiffening of management resistance to unrealistic pay claims, but Ministers needed to keep up the pressure on managements generally.

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Summing up this part of the discussion, the Prime Minister said they were agreed that there should be no general campaign. But Ministers should continue to make speeches on the general theme of the need for greater realism, and the possibility of using less conventional methods to get over the message should be explored further on the lines discussed. (The Prime Minister would like a report on the latter within the next three weeks: I suggest that the Treasury should consult the No.10 Press Secretary and the Lord President's Office and report back accordingly.) In their contacts with the CBI, Ministers should indicate that it was for the CBI to remain in the lead in getting over the message with their members. The CBI should also be encouraged to continue their activities aimed at improving employer/employee communication at company level. In the meantime, the Secretary of State for Industry should consider the possibility of issuing a code of conduct covering communication and possibly greater employee involvement generally with or without legislation. The Secretary of State for Education should also consider how schools might be encouraged to educate young people better in the economic facts of life.

#### Arbitration

Mr. Ibbs said that, at present, most arbitration references resulted in settlements that the arbitrators regarded as fair rather than what could be afforded. The CPRS suggested that further work should be done on how arbitration arrangements could be improved so as to ensure that proper attention was paid to arguments based on ability to pay.

In discussion, it was suggested that it was important to distinguish between public and private sectors. In the private sector, few employees had unilateral access to arbitration; there was therefore little for the Government to do except to advise companies not to get drawn into arbitration except on terms that were demonstrably satisfactory. The situation was different in the public sector, where many employees had unilateral right of access to arbitration. One task for the Government would be to try to find ways of eliminating the latter. At the same time, further work should be done to try to improve the specific procedures of arbitration arrangements so that the "affordability" criterion could be properly taken into account. Although arbitration tribunals were often supposed to take into account the public interest, in practice they failed to translate this into "affordability".

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Summing up this part of the discussion, the Prime Minister asked the Secretary of State for Employment to co-ordinate further work on arbitration with a view, in particular, to giving more weight to "affordability", and to report back.

#### Industrial Relations Legislation

The meeting took note that changes in the law covering trade union immunities, secret ballots, etc., could have an important part to play in improving the pay bargaining framework, and that the Secretary of State for Employment would be bringing forward his proposals shortly. The Prime Minister asked the Secretary of State to give special attention to the possibility of including a provision which would allow the laying off of white collar workers, as proposed by the Engineering Employers Federation.

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## Water Workers

There was brief discussion of the possible risks of a national water strike. In this context, it was suggested that it might be worth looking again at the possibility of extending the concept of no-strike agreements, although it was recognised that such agreements were likely to be negotiable only at substantial cost. There was also the question of enforceability, although the Prime Minister pointed out that this would be much less of a problem if employers could take action against trade union funds.

The Prime Minister asked the Secretary of State for Employment to consider further the possibility of negotiating no-strike agreements in the context of his proposals for trade union legislation generally. The Prime Minister also invited the Civil Contingencies Unit, or if appropriate a smaller group within the CCU, to look again at the likely effects of industrial action in the water industry, and at the options for dealing with them; and to report back accordingly.

## Unemployment Benefit

It was noted that the CPRS report indicated that a cut in unemployment benefit would have a beneficial effect on pay bargaining and on employment. Estimates of how much employment would increase if the benefit level was reduced varied greatly; if some of the higher estimates, such as those made by Professor Minford, were correct, there would be a strong argument for imposing a cut. This was quite apart from the public expenditure argument. On the other hand, it was argued that a cut in unemployment benefit would only be tolerable if, over a period, pay was seen to be rising less than the cost of living. In fact, this had only begun to happen since early 1981. Furthermore, the problem of the overlap between the living standards of those who were in and those who were out of work had been greatly exaggerated: it was only serious in the case of people who worked part of the year and then drew unemployment benefit, and this latter problem was being tackled through the taxation of unemployment benefit, which should come into effect in July 1982.

The Prime Minister said that the Secretary of State for Social Services was no doubt considering the question of unemployment benefit uprating in the context of the decisions on public expenditure; she invited him to take into account the link between the unemployment benefit level and pay and employment, and to look in particular at Professor Minford's work on this subject.

## Wages Councils

The Secretary of State for Employment said that E Committee had already decided against legislation to abolish the Wages Councils. He was attracted by the general proposition that the Wages Councils should give more emphasis to economic criteria; but he did not think the CPRS proposal that their arbitral powers should be removed was a runner. The Government should effect modest improvements in the operation of the Wages Councils as and when the opportunity arose.

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The Prime Minister said that the case against the Wages Councils was now stronger, given the higher level of unemployment, particularly among young people. Accordingly, the Secretary of State for Employment should reconsider the options for abolishing or curtailing them and report back to E Committee.

In the general context of improving the prospects for youth employment, the Prime Minister also asked the Chief Secretary to ensure that publicity was given to the Young Workers Scheme as part of the Business Opportunities Programme. The Central Office of Information might also be asked to put out something on it if it had not done so already.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Secretaries of State for Industry, Social Services, Environment, Employment, Energy, Education and Defence, the Home Secretary, the Lord President, Sir Robert Armstrong and Robin Ibbs.

*Handwritten initials*

*Tim Latham*

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