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PRIME MINISTER

14 September 1983

cc Mr Mount

COAL INDUSTRY PAY 1983

The NCB is thought likely to come forward with an offer on rates of pay in line with inflation ("close to 5%"). This will imply something less than 5% on earnings; to illustrate, last year's settlement was 7.2% on rates and 6.5% on earnings.

A settlement at 5% would be:

- (i) substantially lower than last year's settlement;
- (ii) in line with the average of public trading sector settlements over the last three months (5%);
- (iii) just below the average for private sector settlements (5½%);
- (iv) marginally above the recent level of inflation (4.2% to July) but marginally below the anticipated level of inflation over the next year (6%?);
- (v) higher, but not out of touch with the Government's new pay factor of 3%.

In arithmetic terms a settlement of no higher than 5% would not damage the Government's objectives on pay, but would not positively enhance them either. However, against the background of a presumption in the public mind that miners get more because of their aggression, it could be argued that 5% is a good settlement from the Government's point of view.

A bankrupt industry

Viewed from another angle, a 5% settlement is a thoroughly bad one. In the last decade the NCB had raised miners' earnings relative to those in manufacturing and invested heavily but without achieving the closures which alone would make these expenditures worthwhile. If the NCB were in the private sector it would now be bankrupt, and like a bankrupt company, and like BSC in recent years and British Shipbuilders this year, the NCB would be justified in announcing that it could not afford a national pay award this year. This approach was essential

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for BSC's financial recovery within the foreseeable future: why not in the coal industry, too?

The Government has a unique opportunity to drive for a low settlement, of say 3%; it has just won an election endorsing its policy on inflation; the miners' leaders have been defeated decisively in previous ballots and have been discredited at the TUC Conference; the coal industry's finances have been exposed by the Monopolies Commission Report and by statements by Peter Walker; power station endurance has now been increased to six months.

It will be argued that a low offer of 3-4% will drive the moderates into the arms of the militants whose objectives are to oppose closures and pick a fight with the Government. This was the reason for last year's offer of over 7%, rather than the lower figure which the NCB originally had in mind. This is an important point: the NCB needs to retain the loyalty of the moderates in order to secure the necessary closures of 25 mt of capacity. Why jeopardise this for the sale of 1-2% on pay? I think that it would be a mistake to overplay this argument. Accommodation on pay has not bought closures; on the contrary, it has merely advertised unwillingness to face up to the industry's basic problems. Firmness on pay surely goes hand in hand with firmness on closures. The logic of the market says that if an employer needs fewer employees he need only offer lower or no increases in pay. Why should this logic be suspended in this particular industry?

### Conclusions

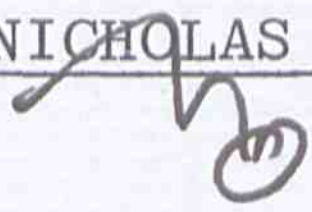
1. An offer in excess of 5% (eg 6-7%) should not be contemplated by the Government: it wouldn't guarantee additional closures; it would postpone viability, and by totally avoiding any risk of a confrontation, would damage the Government's credibility.
2. An offer of 5% would be consistent with pay policy, it would run a slight risk of a strike but would, in my view, forego a unique opportunity to break through on pay.
3. An offer of 3-4% would court a definite risk of a strike, which the Government has invested £150m to resist for six

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months; it would represent a considerable prize for the Government - an early break-through in the pay round against a traditionally difficult group of employees and a necessary step towards the viability of the coal industry.

NICHOLAS OWEN

A handwritten signature in black ink, appearing to be 'N Owen', written over the typed name 'NICHOLAS OWEN'.

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