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JV
Prime Minister

To note

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Ms 8/1

PRIME MINISTER

PAY: GENERAL PUBLICITY

Your office's letter to mine of 22 December recorded your intention, following my minute of 18 December, to hold an early meeting of Ministers on our general publicity effort over pay. It may be helpful if I offer in advance one or two brief suggestions.

we had the meeting, of course, this morning.

2. I intend to seek an early opportunity, if possible within the next week or so, to make a major speech myself on the theme of pay moderation. But I believe there might be especially high value in having something substantial said (with the maximum media attention we can get) by one or more senior Ministers from among those whose Departmental responsibilities are not primarily economic and not directly connected with particular settlements in the offing. This could less easily be discounted as "the usual Treasury line", and should have enhanced impact accordingly. The sooner it were done the better. It would reflect ideas we have discussed.

.... 3. There are many ways of setting out the basic theme, and individual styles will vary. But I attach a draft passage illustrating the sort of message that might be put across.

4. This apart, I am asking my officials to prepare, in consultation with others concerned, an up-to-date general brief for speakers. Such a brief might be given a wide circulation, for example by your office or Francis Pym's, as a guide to Ministers and Government supporters in seizing opportunities to put over the message both locally and more widely. Again, this reflects ideas we have discussed.

/I am



5. I am sending copies of this minute and the attachment to Francis Pym, Norman Tebbit, Cecil Parkinson, and Michael Jopling, and also to Sir Robert Armstrong.

(G.H.)

7 January 1982

CONQUEROR

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SPEECH MATERIAL ON PAY

Over the last month or two pay talks and settlements have been getting a good many headlines, and they will certainly go on doing so. It is right that they should catch public attention, for they affect us all, not just those directly represented at a particular negotiating table. It is important that every one of us should understand this.

2. We all individually would like higher pay for ourselves, especially in hard times; there's nothing unnatural or discreditable in feeling that. And some of us - not the majority, but some substantial minorities - have a lot of leverage for getting our way. Modern Britain is a complex interdependent society, and there are several groups - particularly though not only the big public monopolies - whose jobs are so immediately crucial to our society's working that if they were to exploit their position ruthlessly enough they could impose an appalling price on the rest of us if their demands were resisted. In general, I am glad to say, they don't push their power to the limit; over the last year or so there has been much genuine restraint, though it has been patchy. But we have to recognise that this restraint must be a long haul affair; it is still desperately needed; and it matters to everyone. The powerful groups, if they choose to live by the law of the jungle, can look after their own interest in the short term at the expense of the rest; but in the long term we will then all be the losers, strong and weak alike. Let me explain why.

3. The money available to us all as a nation is limited; we cannot just print more if it runs short - that is the quick path

/to inflationary

to inflationary ruin, to bogus money. Given some limit to money, the more we spend on paying ourselves higher wages the less there is for output and investment, and so for new jobs - we prolong recession instead of fighting it. And the first and biggest sufferers are those who become unemployed; for what excessive wages do most directly and immediately is to look after those who manage to keep their jobs at the cost of adding to the numbers out of work. This isn't a matter of highfaluting or controversial economic theory; it's a fact within everyone's grasp. Consider what happens in our own domestic affairs. When things are tight financially, if the price of something goes up sharply we have to make do with less of it. Precisely the same happens with jobs. If an employer is squeezed on costs (and most of our industry nowadays is, because it can't just push up prices - that simply hands over business to our competitors overseas) then when the price of labour goes up sharply he will seek to make do with less of it, or else go out of business. That's inescapable. And it is of course very clear within individual firms, even big ones like British Leyland. But what we have to recognise is that the same basic truth applies to the economy as a whole, private and public sector alike. If groups in the public sector push up their wage costs, the result is felt either directly in reduced services and a reduction in public sector jobs or indirectly in higher rates, higher taxes and higher charges for energy and telecommunications; this adds to the burdens on the already hard pressed private sector, and so threatens jobs there.

4. Everyone agrees - all major parties, and both sides of industry - that it is immensely important to get both inflation

/and unemployment

and unemployment down; and the two go together. Now it would be ridiculous to claim that these two evils are caused simply by excessive wages; they have no single cause. But excessive pay settlements - i.e. higher pay without higher output - are among the causes; and they are moreover, unlike some of the other factors, a cause we in Britain can collectively do something about, directly and soon. The realities are after all not a matter of abstract theory but of concrete and vivid experience. We all recall the way high wage settlements and high inflation fuelled one another in 1974-75 and 1978-79 - and how much better we did, for the community as a whole, when we pulled ourselves back up by restraint after each of these episodes.

5. If, whether as concerned individual members of the community members - or leaders - of trade unions, employers or Government, we really mean it when we say we are against inflation and against unemployment - if we are not just mouthing routine platitudes - then the most practical and constructive thing we can do to help is to accept modest pay settlements. I recognise - I make no attempt to conceal - that this will mean some drop for a time in living standards, since it must mean settlements below the rate of inflation. As a nation, we have absolutely no alternative but to accept a drop - a trading nation in a world recession, and a trading nation moreover which in many areas does not match international standards of productivity and competitiveness, can have no immediate escape from this reality. We've allowed our unit labour costs to double since 1975: in the US they've gone up by 1/3, in Germany by 1/6 and in Japan not at all. We live in a harsh competitive world and we cannot shut ourselves off from it. It is simply not in our power to choose, as a nation, not to have some temporary decline in living

/all we can choose

standards; all we can choose is how and where to make the sacrifices - do we make them in ways which will help our recovery, and which spread the sacrifices fairly; or are the strong simply to look after themselves at the expense of everyone else?

6. I do not like the fashion which talks of pay determination in the language and concepts of war - struggle and battle, victory and defeat. But if it is to be used, let us all understand who it is that the metaphors really refer to. If some powerful group wins what militants call a victory, then the defeat is not of the Government but of the community as a whole. If a group controlling some key public service goes for the jugular, be clear whose jugular it is; not the jugular of a couple of dozen individuals round the Cabinet table, but the jugular of the British people. The Government as such has no private store of money from which it can pay one group over the odds without affecting others; all it can do is take the money from somewhere and someone else - someone else's wage packet or pension, someone else's job. That is the central reality.

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