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cc Mr. Hoskyns

Prime Minister

We have had a meeting pencilled in for Friday morning against the possibility of an unfavourable miners' vote. If the vote proves favourable we will postpone until next Thursday

Cabinet: Pay

MR. SCHOLAR

We had a word about tomorrow's Cabinet, and the likelihood that Mr. Lawson and Mr. Howell will want to report to their colleagues on developments in the miners and British Rail pay disputes. This week has been an important one for the pay round, and I suppose there may be some general discussion of recent pay developments. The Prime Minister may find it helpful to have these comments on the current pay scene:

can be taken on endurance for next winter.

Yes Mr. Agree? MLS 20/1

(i) The pay round as a whole is now settling down in the 4-9% range. There seem to have been very few settlements below that range; the CBI say that the bulk have been between 4-6%; the Department of Employment's private assessment puts the cumulative weighted average for the pay round at just over 7%. Only about 15% of employees have yet settled. The principal conclusion one can draw from all this is that pay settlements in the main are somewhat lower than during the similar period last year. And, perhaps more importantly, there is considerable evidence that unit labour costs have been growing more slowly than in competitor countries.

(ii) In the nationalised industries, acceptance by the water workers and (we may assume) the miners of their offers in the 9-10% range mean that we have passed a danger point, but we cannot yet relax on this front. I think there are three points for Ministers:

(a) It would be helpful if Mr. Lawson finds some way of discouraging the electricity and gas industries from assuming that they should aim for the level achieved by the miners;

(b) when the dust has settled from the miners' dispute, the time will have come to explain publicly that the effect on average earnings will only be 7.3% (the Department of Energy have accepted that this could be done); and

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/ (c)

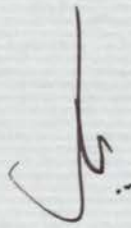


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(c) at a later stage, there will be decisions to take, which MISC 57 is now preparing, on our endurance target for next November in the event of a miners' pay dispute then.

(iii) The focus of pay negotiations will now move to the public services. It seems very likely that the local authority manual workers will accept their pay offer of 6.9% on average earnings, since the two biggest unions have already accepted it; the decision will be known on Monday. The earliest negotiations will be in the health services and the civil service, with the teachers somewhat later. The prospects for industrial action are less threatening, but there will be more decisions for Ministers to take, because the Government's own employees are involved. Although many public service groups are potential exceptions to the 4% regime, it is important that the line is held publicly at 4% for as long as possible, and the speaking notes circulated by the Chancellor may encourage Ministers to do that. The details of the negotiations are being prepared in the appropriate Ministerial Committees.



John Vereker

20 January 1982

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