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MR. INGHAM

cc Mr. Scholar
Mr. Mount
Mr. Walters
Mr. Mower

The Next Pay Round

As you know, E discussed the Chancellor's two papers on the next pay round this morning. Afterwards the Chancellor buttonholed me about a speech he intends to make at a lunch on Tuesday 6 July for a group of about 25 industrial and labour correspondents. I have agreed to help with - but not to draft - his speech, and to ask you to give it a push with the Lobby. The purpose of the speech is to start to set the atmosphere for the forthcoming pay round, along the lines endorsed by E. It may be helpful therefore if I let you have this brief résumé of the E discussion, but in a form rather different from the Cabinet Office minutes.

The Chancellor was not seeking decisions on the pay factors for the next pay round, and not even on whether there should be separate pay and price figures: that will come later. What he was after was a general endorsement of an objective for the next pay round for the economy as a whole, which he described as "lower still than last year", i.e. ~~on the~~ settlements at 4% (about 6% this year) and earnings at 6% (about 9% this year). He reminded his colleagues that for those in work, there had not so far been much reduction in living standards over the last two pay rounds, and that we still had earnings rising twice as fast as in US, Germany and Japan. We were still 30% less competitive than three years ago.

Only Mr. Heseltine tried to get a decision on the need for separate pay and price factors, on the entirely correct grounds that otherwise the figure that would get into circulation would be higher than the figure we were seeking for pay. John Sparrow supported this, and warned that 6% would otherwise remain in circulation. The Chancellor will clearly have a problem in trying to set the tone of the next pay round before he is able to talk about the Government's pay factors for the public services.

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The rest of the discussion focussed on only two issues: Mr. Heseltine's proposal for linking lower pay with higher public investment, and everybody's own suggestions for presenting the forthcoming pay message.

Mr. Heseltine got no support. Some colleagues were sympathetic with the objective, but none thought it would work. All experience showed that people would take the pay, and therefore the new investment would never be made. And it took John Sparrow to point out that capital expenditure should stand or fall on its own merits; and Mr. Fowler to remind everyone that it was central to our approach for pay to be related to the circumstances of a particular industry.

As for presentation, the Prime Minister's summary directed the Cabinet Office to prepare a record of the main points suggested. There was some difference of opinion about the message, ranging from a majority who thought it should be confined to a simple reminder of the link between pay and jobs, through those who felt that a major effort would be needed to counter pressure in the economy for bouncing back after two years of restraint, to the sophisticates who argued for the message to spell out the arguments for increased competitiveness and productivity, and lower unit costs. I detected a consensus that the CBI and the private sector would need to be stiffened up - there was much reference to the reported attitude of Lucas, who are contemplating opening at 5% and moving higher to compensate for the last two years.

There was a brief discussion of the special problems of pay in the public trading sector, and the conclusion was that sponsor Ministers would have to look even harder than before at the pay assumptions in EFLs.

J.M.M. VEREKER

1 July 1982